Public Utilities

Volume 64 No. 2

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July 16, 1959

In Two Sections-Section I

THE PUBLIC RELATIONS OF A TELEPHONE RATE CASE

By Michael Sheldon

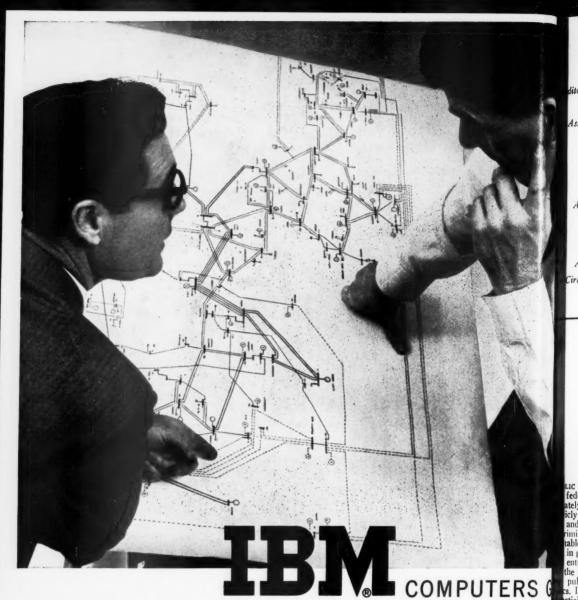
The Economic Liability to Measure Cost

By James E. Brown

Tax Expense and the Income Statement

By L. Lynnwood Aris

A Transit Rate Solution



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red as second-class matter April 29, 1915, r the Act of March 3, 1879, at the Post Office altimore, Md., December 31, 1936. Copy-ed, 1959, by Public Utilities Reports, Inc. ed in U. S. A.

Public Utilities

FORTNIGHTLY

VOLUME 64

JULY 16, 1959

NUMBER 2



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Pages with the Editors

THE late genius, Dr. Albert Einstein, used to tell a very human story to demonstrate the fact that the blunt truth is not always compatible with human sympathy, simple charity, or even plain good manners. He referred to a young bridegroom in one of the old countries of Europe who had followed local custom by obeying his parents in marrying a somewhat affluent wife who was by no means beautiful. When someone asked him if he were happy, the young man could only say, somewhat wistfully, "If I were to try to tell you the truth, I would have to lie."

THE revenue requirements of public utility companies these days demand that they seek rate increases sometimes recurrently. And it is the duty of public relations officers to plan explanatory publicity and other information programs that will give the rate-paying public a better understanding of why such increases are necessary. But it would be expecting too much to think that a public utility company could actually gain new friends or make everybody perfectly happy in the process of a rate case. The best that a company can reasonably expect of even the most enlightened public relations operation, during such proceedings, is to make the



MICHAEL SHELDON

resulting increase a little more palatable and acceptable to the public.

But good public relations, like a good balance in the bank, is usually the result of steady accumulation over a considerable period. A company which has long been following an enlightened program of creating good will and better understanding already has such reserves upon which to draw, when the rainy day of a rate case arrives. If a company has not been fortunate enough in its advance preparation, it may find itself overdrawn in the bank of public opinion.

ALL this is by way of restating the ofttold tale that good public relations do not start with a rate case. On the contrary, the rate case is a pressure rest which shows up just what kind of good will balance the company has accrued.

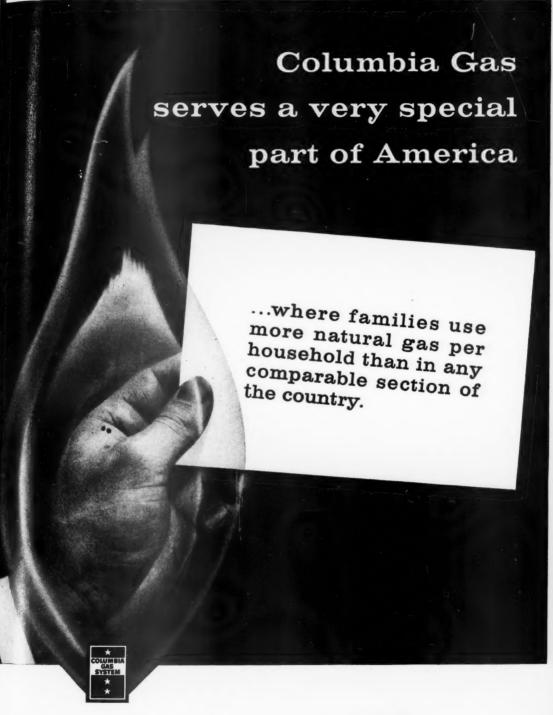
Because telephone companies have found it necessary to go to the regulatory commissions sooner, and perhaps a little oftener, than some of the other utility industries for rate increases, a discussion of their public relations practices during a rate case should prove of timely interest to all. The opening article in this issue comes to us from a staff supervisor of editorial services of the Beil Telephone Company of Canada and gives a realistic appraisal of practical steps, as well as pitfalls to be avoided, in maintaining a telephone company's public relations with the public during these difficult times.

THE author of this opening article is MICHAEL SHELDON, a native of London. England, and a graduate of Oxford, who did wartime service with the British Army Intelligence Corps, mainly in political or psychological warfare. After the war he was assistant press attaché at the British Embassy in Brussels, and did some public relations work for the British European

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PAGES WITH THE EDITORS (Continued)

Airways. In 1948 he came to Canada and joined the Bell Telephone Company in 1951. His press assignments include the preparation of annual reports, special articles and speeches, and developing public relations policies and statements on a variety of matters, including financing. He has also written a number of articles for Canadian publications, such as Maclean's Magazine, Canadian Business, and Canadian Geographical Journal.

RECENT court and commission proceedings on the same ings on the proper position on tax expense in the corporate income statement has focused the attention of accountants on the placement of deferred credits to income taxes on the position statement. This naturally involves the problem of income tax allocation. In his article beginning on page 125, L. LYNNWOOD ARIS, now a teaching fellow in accounting at the University of Michigan, has written an analysis of the theoretical accounting factors involved. He proposes to show that interperiod tax allocation conforms better with the generally accepted accounting principle of matching expense and revenue than showing the tax actually charged by the government on the income statement during a given period.

Mr. Aris is a graduate of Albion College, Albion, Michigan (BA, '58). He took his recent accounting internship at the Detroit office of Arthur Andersen & Co. and is still engaged in postgraduate work, majoring in business administration.

James E. Brown of the University of Florida, College of Business Administration, whose article begins on page 119, undertakes to show that recent arguments expressed in this publication on the "liability to replace" as a measure of depreciation must be recognized as the old annuity method of depreciation treatment in a new dress. The author concludes that the solution is not to adjust depreciation charges to replacement basis, nor to permit an extra "attrition allowance" in the rate



L. LYNNWOOD ARIS

of return. He proposes that inflation losses themselves be recognized on the books of the utility. Only in this way can the evil of inflation be met head on.

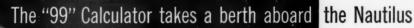
MR. Brown is a graduate of the University of Virginia (BS, '54) who also received an MA in accounting from Michigan State University.

EDWARD A. ROBERTS, whose suggested solution to the transit rate problem solution to the transit rate problem appears in our "What Others Think" department (beginning page 152), is an engineering graduate of Harvard ('14) and a research fellow in railway engineering at the University of Illinois. For nineteen years (1923-42) he was chief executive of one of the transit systems in New York city (now known as Queens Transit Corporation). During World War II he was director of highway passenger operations of the Office of Defense Transportation. Since the end of World War II he has been a consulting engineer specializing in passenger transportation for a number of cities and transit systems and for several regulatory commissions (notably Maryland and the District of Columbia).

The next number of this magazine will be out July 30th.

The Editors

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Coming IN THE NEXT ISSUE

(July 30, 1959, issue)



REGULATED INDUSTRIES AND THE CAPITAL MARKET

Dr. Roland B. Eutsler, of the School of Business Administration of the University of Florida, and James E. Brown, also on the University of Florida faculty, have combined their talents to give us an analysis of the capital market in its relation to regulated utility industries. These authors take the view that the continued contribution of transportation and private utility industries will be greater than under public ownership and operation. They further propose that such contribution will be needed for the American economy in an increasing amount if these industries are to meet the rising demands of growing population. Essential to the private capital system is the payment of rewards to all productive resources, management, labor, and to the capital used in production.

IN CASE OF ATTACK

Three years ago in PUBLIC UTILITIES FORTNIGHTLY, the Assistant Secretary of the Interior, Fred G. Aandahl, wrote an article on the subject of civil defense planning for public utility industries in case of an attack. What has been the thinking of the responsible government authorities since that time? Herbert Bratter, professional author of Washington, D. C., has checked the latest available information on this subject in the Business and Defense Services Administration of the U. S. Department of Commerce. But one of the most interesting and important problems was the creation of an executive reserve and the decentralization of the same to avoid the serious consequences that might result in the event of a catastrophic enemy attack on the nation's capital.

WHEN AND HOW SHOULD THE UTILITY EXECUTIVE RETIRE?

During his career, Alfred M. Cooper, now a professional writer of Indio, California, was at one time educational director for a large publicly owned electric utility. Subsequently, he was associated with the management of an investor-owned utility company. Accordingly, he has had an opportunity to consider on a broad basis the problem of making proper provision for the retirement of utility executives, whether in publicly owned or privately owned utility operations. He points out, for example, that in any consideration of retirement schedules it is essential to bear in mind that wealth of experience which makes the executive of sixty or over valuable to his organization.



Also... Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.

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HOLMES ALEXANDER Columnist.

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C. CANBY BALDERSTON
Vice chairman, Federal Reserve
Board of Governors.

"While the majority of investors cannot outrun inflation, they can do something to protect themselves against it; that is, they can unite to fight it by demanding prudence in the management of national affairs and by exercising it in the conduct of their own. In short, they can insist that the nation not spend more than it earns through production and that their government live within its income."

DWIGHT D. EISENHOWER President of the United States.

"... in recent years ... our dollar has lost half its value. If that continues ... it is going to be disastrous for our kind of economy and for the welfare of our people; and the expansion of your economy is not going to come out of [federal] spending. The expansion is going to come from the incentives that we give to our people for working hard, using their brains, and keeping what they can earn as much as possible, so they spend their money themselves."

BARRY GOLDWATER U. S. Senator from Arizona.

"I would go for farm legislation which insured the farmer against loss by acts of nature. But that's all. He should not have federal insurance of his profits. Essentially, the farm problem today is to get the government out of the picture and to let the market take full control. . . . I don't blame any farmer for taking advantage of legislation which Congress has passed. I do blame Congress. We ought to have the guts to take the government completely out of the agricultural field."

Editorial Statement First National City Bank Monthly Letter. ". . . the value of stocks must reflect, in the long run, the earning power of business. This, in turn, will be vitally affected by government programs and policies, taxes, controls, and regulations. Rising business profits and dividends do not necessarily follow from higher consumer prices. It is worth noting what happened to common stocks in Great Britain during the years 1946-50 when the Labor party was in power. During those years—marked by very high taxes, nationalization (and threat of nationalization) of industry, rigid government controls, and basic antagonism towards private business—though the British cost of living rose nearly 22 per cent, prices of industrial shares dropped 17 per cent."

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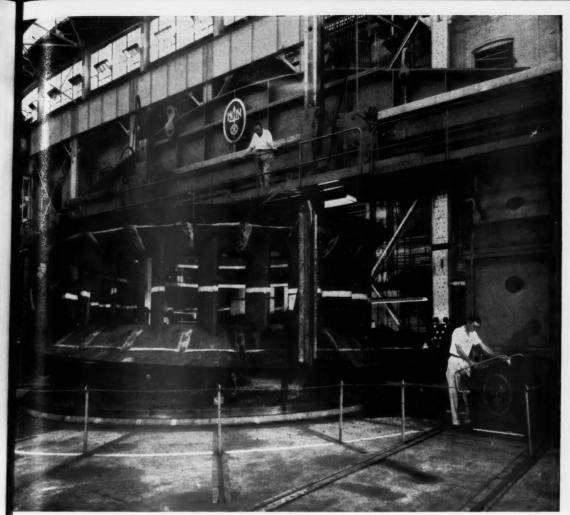
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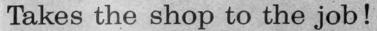
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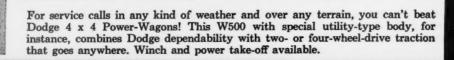


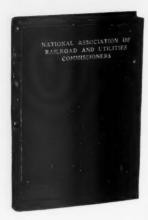
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JULY

Thursday_16

American School Food Service Association will hold meeting, San Francisco, Cal. Aug. 9-13. Advance notice.

Friday-17

American Water Works Association ends six-day annual conference, San Francisco, Cal.

Saturday-18

Summer Communications Course will be held, Massachusetts Institute of Technology, Cambridge, Mass. Aug. 17-28. Advance notice.

Sunday-19

Western Electronic Show and Convention will be held, San Francisco, Cal. Aug. 18-21. Advance notice.

Monday-20

Western Summer Radio-Television and Appliance Market begins western merchandisc mart, San Francisco, Cal.

Tuesday—21

American Bar Association will hold annual meeting, Miami Beach, Fla. Aug. 24-28. Advance notice.

Wednesday—22

The American Dietetic Association will hold meeting, Los Angeles, Cal. Aug. 24-28. Advance notice.

Thursday—23

American Institute of Electrical Engineers will hold petroleum industry conference, Long Beach, Cal. Aug. 25-27. Advance notice.

9

Friday-24

Mid-West Gas Association will hold gas school and conference, Ames, Iowa. Aug. 36-28. Advance notice.

Saturday-25

West Virginia Broadcasters Association will hold meeting, White Sulphur Springs, W. Va. Aug. 28-30. Advance notice."

Sunday-26

Eighth Utility Management Workshop begins, Harriman Campus, Harriman, N.Y.

Monday-27

New Jersey Gas Association will hold annual convention, Asbury Park, N. J. Sept. 4. Advance notice.



uesday-28

Illum ating Engineering Socie will hold national technial conference, San Fran co, Cal. Sept. 7-10. Advance notice.

Wednesday-29

Northwest Shippers Advisory Board begins meeting, Missoula, Mont.

Thursday—30

Tennessee Telephone Association will hold annual convention, Nashville, Tenn. Sept. 9, 10. Advance notice.

Friday-31

Pacific Coast Gas Association will hold annual meeting, Los Angeles, Cal. Sept. 9-11. Advance notice.



Courtesy, Bell Telephone Laboratories

New Dial-in-hand Telephone

of tar

New Jersey Bell Telephone Company is now installing 250 of these dial-in-hand telephones recently developed by Bell Telephone Laboratories, to test customer reaction to appearance and operation. The phone's dial has a night light for easier dialing. A number of independent telephone companies are likewise testing similar equipment made by independent ent manufacturers.

Public Utilities

FORTNIGHTLY

VOLUME 64

JULY 16, 1959

NUMBER 2



The Public Relations Of a Telephone Rate Case

By MICHAEL SHELDON*

A rate case puts the public relations achieved by a utility to a crucial test. It is usually a localized affair and it should be conducted on that plane. All publicity material should be carefully related to the various groups it seeks to influence in a way each will best understand. Down-to-earth arguments should be used. The value of the utility to the community should be emphasized. The rate case will progress much easier to a successful conclusion where the public relations climate is favorable.

THE period of a rate application presents a utility with its greatest public relations challenge, and it does this on two levels. There are the public relations activities associated with the conduct of the case, aiming at effective promotion of the company viewpoint. More important though is the safeguarding of the company's long-term public image; the rate case must not be allowed to hurt a reputa-

tion for good management and fair dealing.

An application for higher rates is an unfortunate necessity—for both the company and the customer. The company would prefer to be able to provide good service and make a reasonable profit without the trouble of a rate case and the greater vulnerability higher charges inevitably bring. As for the customer—nobody willingly pays more for anything, however logical the arguments for doing so may sound.

^{*}Staff supervisor, editorial services, The Bell Telephone Company of Canada. For additional personal note, see "Pages with the Editors."

PUBLIC UTILITIES FORTNIGHTLY

Ideally, therefore, the company would prefer to pass over the situation in silence, and it is certainly interested in creating as little disturbance as possible. Nonregulated business can—and does—raise its prices without any public notice.

Any public relations planning should start from this basis. It is a matter of doing what is essential, not of indulging in elaborate activity which may only add to public sensitivity to the situation.

TAT are the potential audiences for the various types of publicity which may be used? First, there are the customers; in most instances they can be equated with the general public. Then there are the opinion leaders in the various communities which the utility serves, especially important being those with political power or influence. Thirdly, there are the employees, both management and nonmanagement. Without their active support the company cannot hope to sell its case to their friends and neighbors. Fourthly, there are the shareholders who, it should not be forgotten, may well be customers too. Fifthly, the effect of company publicity on the regulatory authority itself should not be overlooked, particularly the way it can influence the atmosphere in which the case will be heard.

Slanting PR Material

It is important that any public relations material, written or spoken, should be carefully tailored to the interests of the particular group. It is equally important that there be no conflict between the different approaches, even though there is a marked variation in emphasis. In general, for example, the capacity of management and nonmanagement employees to absorb

the situation will vary considerably. Management people should be given a full, objective story, accompanied by guidance notes on how best to present this to the employees who work for them. The same detailed attention cannot be expected from the entire employee body, so there is call too for a simplified statement of the company case, bringing out the key facts and arguments. Were management to receive only the latter, they would-rightly-feel insulted, and truly interested employees should also have access to just as much information as their supervisors receive. Similarly, it is most desirable that union officials be taken fully into the company's confidence.

Initial statements, articles, or speeches ought to be closely related to the formal company case, and to the priorities established there. But the public relations department should be allowed sufficient flexibility to bring in other facts and arguments if the situation warrants it, notably if opposition statements begin to alter the direction of the case. And it is generally important that legal and financial people realize that the public relations presentation cannot be made in exactly the words or format which they use for submission to the regulatory body.

Some Appeals to Use

Some of the public relations material will present or paraphrase the formal case, discussing, for example, the rise in costs or the need for better earnings to attract capital. However, public relations advisers may want to go further than the application. In dealing with costs it may be desirable to place greater emphasis on rising wage rates—particularly in employee material. Or to explain in some

THE PUBLIC RELATIONS OF A TELEPHONE RATE CASE

detail what the company is doing to control costs through greater efficiency, yet all its efforts have not sufficed to bottle

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up the pressures of inflation. Similarly, the impact of taxes may require more extended treatment.

THERE are also specifically p. r. arguments, which may, of course, be included in the application. One is the national or regional significance of the utility, and the related reasons for keeping it in good financial and operational health. Another is the effect on local prosperity of the company payroll and tax bill. Again, there is the employment provided both directly and through the company's suppliers, employment which would be endangered by inadequate earnings. These are most effective appeals to both the general public and opinion leaders, especially to elected officials, and local figures should be used wherever possible to back them up. In fact the more the company story can be localized, the greater its impact will be.

Another appeal of the same type is the effect of good earnings on good service, and on the company's ability to expand its facilities. However, this can be complicated, for there is a counterargument that present customers are being asked to pay more in order to finance the company's service to future customers. It should therefore be presented on as wide a plane as possible. For example, good earnings mean better service at lower cost in the long run because they allow more effective planning. Also, it is a legal responsibility of a utility to provide service to those who require it. Rates are not designed to finance expansion, so earnings must attract capital at fair cost. If low earnings force the company to pay too much for new capital, in the long run all its customers will suffer.

Avoid Financial Complexities

FINANCIAL topics like this and the more intricate ones which may well arise, such as the merits of various ways of accounting for depreciation for tax purposes, raise an audience problem. Is any-

thing to be gained from trying to present this sort of situation to the generality of customers—or even of employees? There is plenty of evidence that there is not.

However convinced a utility management may be of the soundness and the morality of its reasoning, the mass of the public will be unlikely to envisage such financial considerations as justification for higher rates. Not understanding the complex issues, they will tend to dismiss the company case as special pleading.

Intense publicity on the subject will serve only to increase their sensitivity to the way they are personally affected. Of course attacks on the company may make some formal statement unavoidable, but this is different from initiating an appeal to the public at large. On the other hand, these are matters which should be discussed frankly with the interested minority which influences public opinion and often acts for it. It is equally desirable that the shareholders be taken fully into management's confidence.

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A Personalized Local Approach

THERE are many ways of presenting the company case, but there is one key rule for all of them. The more localized, the more personal the presentation, the more effective it will be. The company-wide newspaper ad is likely to be dismissed for just what it is—advertising.

However, a forthright statement should be made to the press immediately the application is submitted. This can be followed shortly afterwards by localized versions of the case, stressing the community-directed aspects mentioned above.

Right at the start, too, local company people should get busy on a planned program of interviews, ensuring that community leaders are well-acquainted with the company case. In this way it is often possible to head off uninformed criticism. and to lessen the effect of politically inspired attacks. Out-and-out opponents will scarcely be persuaded to hold their fire, but they may act more cautiously if they become aware of the extent of informed appreciation of the utility's case. And the existence of this appreciation may well come to the ears of the regulatory authority. But such an information program can itself have an adverse effect



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if the local climate is already unfriendly, if the company's existing reputation raises doubt rather than confidence.

Select a Good Spokesman

FOLLOWING this line of thinking, the advantage of a good spokesman becomes apparent—of having the case presented by a local representative rather than by an impersonal organization. And when he can address service clubs and other gatherings as a known and respected member of the community, not just an emissary from a distant headquarters, a great deal is gained. For that matter, company statements will carry more weight if they are delivered by the president as an individual.

Also, the company should not appear to be spending large sums of money on its public relations activities. Massive advertisements, posters, and films are likely to arouse more doubts than they settle—in the minds of both the public and the regulatory authority.

Inform Management and Employees

EMPLOYEES should be told of the company's action at least as soon as the public; management in particular ought to be taken into the confidence of the executive at the earliest possible moment. News of the application should be passed down the regular channels of communication, for this will put the supervisor's authority behind it. And a program of information sessions should be planned carefully and well in advance.

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But whoever prepares such reports must take care to present both sides of the case—whether in summaries of press comment or in daily reports of the actual hearings.

THE PUBLIC RELATIONS OF A TELEPHONE RATE CASE



Inform Employees Early and Often

THE EARLY days of the application are crucial so far as employee opinion is concerned. It cannot be assumed that the employees will automatically give their enthusiastic approval to the company's action. They may have personal or political reasons for not doing so. A few days without guidance, during which public comment alone will influence their attitude, can have lasting ill effects. Similarly, it is most important that the employees receive from the company regular, up-to-date, and objective reports on the progress of the case right through to the final award. They need this material to represent the company effectively to their friends and neighbors, and the fact that the company has taken the trouble to provide it can be an important builder of morale and loyalty.

Public Attack Techniques

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ONE very tricky problem is how far to go in replying to public attack. Is it wiser to keep a stiff upper lip or should unfair criticism always be answered? If an attack arises out of genuine misinformation, the record should surely be set straight-whether by personal letter or call, letter to the editor, or official statement would depend on the circumstances. However, with a political attack there may well be weightier reasons for remaining silent. A denial is rarely so effective as the first blow, and often the one thing the attacker is seeking is to get a slugging match going, and so push the issue well under the public nose. It is hard sometimes for management, aware

of the dishonesty of its opponents, to remain silent, but such silence may itself show up the noisy emptiness of the opposition.

ARATE application cannot be looked at or planned for in a vacuum, it is part of the continuing life of the company. The company's case will be related by all the people concerned—customers, shareholders, and employees—to its record and attitude. If service is good, people are more likely to pay more for it without complaint.

Especial care then should be taken in a prerate case period not to irritate customers by unwelcome changes in their service, however advantageous these

PUBLIC UTILITIES FORTNIGHTLY

changes may seem to the company. Similarly, if the employees are held in high regard, there is less likely to be an adverse reaction, whether or not the higher rates result from wage increases.

Finally, management will be able to present the company case much more

successfully if it is truly integrated into the community, if it has shared fully in the welfare and other activities which the community regards as important. Confidence, which may be withheld from a distant, monopolistic corporation, will be confirmed in co-operative fellow citizens, in respected local business leaders.

//WE must not and we cannot let up in our efforts to bring about real gains in productivity....

"The continuous hiking of wages beyond real gains in productivity is sure to intensify inflation. As industry makes such gains, everyone ought to share the benefits. However, if wage increases absorb them all—and more besides—not only is sharing impossible, we are living beyond our means and in the long run no one will benefit.

"... we have ... tremendous pressure for government spending; and at the same time, a disposition on the part of many people in government to put more and more restrictions on business.

"Nowadays everybody talks about inflation, but few of the efforts to do something about it have had conspicuous success. Ideally, if inequities in taxation were eliminated or minimized, the overall tax burden on business reduced, and individual incentives restored, I think gains in productivity would accelerate, we would have much less inflation of prices, real wages would increase, business would do more business, and government revenues would be greater.

"Government is just full of able, hard-working, and reasonable men who have much the same fundamental thoughts. As a practical matter, however... it is difficult for them to act always as they would most deeply and personally desire. And I think we in business have added to their difficulties by failing to expose ourselves, our ideas, and the facts at our command in ways that win widespread belief.

"What then should we in business be doing about these things?

"Number one in our business—and I assume in any business—is that we simply must do the best possible job for the people we serve. But doing our best is not enough. We must also tell our story convincingly in every community. Let us once and for all get over the habit of going to people in government when we need something, and ignoring them when we have nothing to ask for. Let's never ignore them ...

"While I am dead against corporations engaging in partisan support of candidates, I certainly think we should do the most we can to discuss policies and issues and call attention to their impact."

> —FREDERICK R. KAPPEL, President, American Telephone and Telegraph Company.

I

The Economic Liability To Measure Cost



We cannot truly measure cost by methods of depreciation which seek to circumvent the effects of inflation. The losses sustained by a shrinking of the purchasing power of the dollar should be recognized as an item on the books of the utility in consideration of the rate base, depreciation charges, and rate of return.

Since the legal recognition of depreciation, in the famous Knoxville Water Company case in 1909, there have been a multitude of arguments and articles presented on the subject. This continuous flow of proposals concerning depreciation has promoted, herein, yet another examination of the nature of depreciation and its function.

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> The accepted accounting view of depreciation emphasizes the concept that the

purchase of fixed plant and equipment is, in essence, an extreme example of pre-payment. Just as any other prepaid asset expires over time and through use or obsolescence, so is the fixed plant and equipment consumed. This consumption of capital assets is made in the production of income and, thus, the accountant prorates, through various methods, this cost over the useful life of the capital asset in such a way as to realistically match all revenues and all costs applicable to the earning of these revenues.

Depreciation recognizes the expiration or consumption of a capital asset's pro-

see "Pages with the Editors."

¹ Knoxville v. Knoxville Water Co. 212 US 1, 53 L ed 371, 29 S Ct 148.

^{*}Professor, College of Business Administration, Accounting Department, University of Florida, Gainesville, Florida. For additional personal note, see "Pages with the Editors"

ductive capacity in earning revenues, such expiration or consumption occurring because of wear and tear, action of the elements, obsolescence, and any other factors limiting the economic and productive usefulness of the asset. It makes little difference what factor causes the ultimate retirement of an asset or whether the asset will be replaced or not. What is important and inherent in depreciation is the matching of revenues with the costs required to produce those revenues.

The Price Structure

WHETHER or not replacement occurs is of no consequence, under the prevailing concept of depreciation, although replacement may well be required by the consideration of other factors, such as the desire for continuity of operations and the social demands of our economy. It is widely accepted that, under our system of private property and sanctity of contract, investors in business will be afforded the opportunity to recover their investment through the mechanism of the price structure.

This price structure is rigidly controlled in the case of public utility industries, such control being exercised through the mechanism of a rate-making formula. Since the statement of the fair return-fair-value rule for testing the reasonableness of rates, regulatory authorities have considered both the operating expenses and the rate base upon which a return is established to arrive at the revenues which the utility may seek to obtain. The revenues so established should be sufficient to allow consideration of the full cost of the asset expired and thus maintain the integrity of the investors' capital.

So long as the depreciation charge is computed on the actual cost of capital included in the rate base, there will be no impairment of revenues necessary to provide investors with a true picture of their earnings. Earnings are overstated, and the capital investment impaired, when depreciation charges are computed on a basis lower than the actual cost of the assets appearing in the rate base. Conversely, earnings are understated when depreciation charges are higher than the actual cost of the assets included in the rate base.

In view of the avowed purpose of depreciation, that of amortization of cost, and the manner in which both depreciation charges and the reduced book value of the depreciable plant and equipment are included in the rate-making formula, there exists no economic liability to replace.

Theories of Professor Ring

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A RECENT article by Professor Alfred A. Ring, of the University of Florida (PUBLIC UTILITIES FORTNIGHTLY, January 15th), contained an illustration of a depreciable asset which had cost \$1,000 and which had a useful life of fifty years.² It was stated that at mid-life this asset had accumulated toward replacement 50 per cent of its cost or \$500, but that this was in error.

Professor Ring contends that the cost accumulation need only be the present value of the liability to replace one-half, or \$500, of investment in twenty-five years. The basic error which lies in this contention is that \$500 has been accumulated toward replacement. Actually there

² "The Economic Liability to Replace," by Alfred A. Ring, Public Utilities Fortnightly, Vol. 63, No. 2, p. 73, January 15, 1959.

THE ECONOMIC LIABILITY TO MEASURE COST

has been no accumulation; rather, \$500 of the original cost of the asset should have been charged or matched against revenues

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without consideration of the possibility of eventual replacement, which is a separate decision to make.

PROFESSOR RING further claims that the discounted value or present worth of the "liability to replace" an investment some years hence must be recognized as the **economic** measure of depreciation which has accrued. Accordingly, he accepts as sound theory the practical application of the obsolete annuity method, a method which even in the beginning had very few proponents. The theory underlying the annuity method is, in essence, the recognition of imputed interest in the accounts. As a practical matter, however, it was found imprudent and undesirable to include income of an imputed nature in the accounts; thus, depreciation charges themselves were reduced in the earlier years and increased in the later years of useful life to account for the existence of this imputed interest.

Unsound Economic Thinking

OUND economic theory holds, however, that depreciation charges remain unchanged and that interest income of an imputed nature be recognized. The return which could have been earned had an investment been made in interest-bearing obligations, or the implicit interest earned on the balance of the depreciable plant and equipment, under the annuity method, should appear, in theory, as interest income in the accounts. The difficulties and misunderstandings which arise by such a procedure account for the reduction of depreciation expense rather than the inclusion of implicit interest on the accounts as income.

The use of Professor Ring's "economic liability to replace" method implies that the reduction of depreciation expense in the earlier years of useful life and increasing depreciation charges as time goes on is sound economic theory. This amounts to the acceptance as theory of the annuity method as it is applied in computing depreciation charges. Thus,

Professor Ring accepts as sound a proposal which disregards true economic theory and which is based upon the practical application of a concept.

As long as the price level remains fairly stable any standard depreciation method, including the variation of the old annuity method employed by Professor Ring, will result in depreciation charges which, in amount, will closely approximate actual expired costs. The only advantage in the argument presented in Professor Ring's article lies in the possibility that the rate of return allowed by the regulatory agency is higher than the rate used to compute the "economic liability to replace."

Effects of Inflation

THE price level has changed drastically during the recent growth years of the public utility industries and this has led to many inequities being imposed upon the investors. Many new ideas and proposals concerning the rate base and the rate of return have been aimed to-

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ward investor and capital protection in this period of rising prices; however, they are all attempts to get in the backdoor of the inflation preserve. The "economic liability to replace" method, to afford any capital accretion, must depend upon a rate of return higher than the rate of discount employed. This is merely another device to provide for replacement in a period of rising prices quite similar in effect to increasing depreciation charges to a replacement basis.

Increasing depreciation charges to a replacement basis is really a subterfuge which conceals an item of inflation expense in a charge which is intended to represent amortization of cost. It is dishonest accounting. If an expense provision is to be made for price level changes, it should be so tagged, and not concealed as something else. Supporters of the replacement theory, be it through increased depreciation charges or through manipulation of the rate base, apparently are convinced that accountants, economists, and management prefer to employ such subterfuges rather than subject themselves to the criticisms and public misunderstanding that would arise from an open statement of "inflation expense" as an operating charge. Why must it be necessary to hide behind weird accumulations of replacement cost, or "attrition" allowances in the allowable rate of return, to accomplish the same thing which could be accomplished through an open display of honesty?

An Adjustment Should Be Made

It is common knowledge that the economic value of money lies in its purchasing power, its command over goods and services. If the integrity of private investment capital is to be maintained, the amount available as a return upon the risk capital of public utilities must bear some direct and proportionate relation to the varying purchasing power of the most basic of all standards of pecuniary value, the dollar.

The utility industry has found itself in an extremely unfavorable position with the decline in the purchasing power of the dollar which has taken place. This rise in the price level underlies the frequent plea for adoption of replacement cost, "economic liability to replace," or "attrition allowance," in the determination of depreciation charges, the rate base, and the rate of return.

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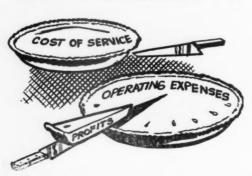
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Some regulatory bodies, in theory at least, agree that the rate of return should be adjusted to maintain the industry's relative position as a business venture. However, the rate of return has been held sacred along with the historic original cost, and commissions have been reluctant to increase the rate of return. The utilities have had to fight for every equalization increase in their rates to a competitive capital-procuring level. There has been an increasing number of supporters for some method of protecting the utility against an unfavorable position as a result of price level changes.



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THE ECONOMIC LIABILITY TO MEASURE COST

The Obvious Solution

WHEN THE value of the dollar changes radically, as it has during recent years, depreciation charges, under any standard generally accepted method of computation, will provide a measurement of expired cost which has no significance at all when applied against current revenues to arrive at the income figure. The solution is not to adjust depreciation charges to a replacement basis, nor to permit an "attrition allowance" in the rate of return, nor any of the other devices for combating inflation. What is necessary is that inflation losses themselves be recognized on the books of the utility.



Of course, as farfetched as it may seem in view of the experience of the past twenty-five years, gains resulting from a fall in the price level must also be recognized. In view of the drastic changes in the value of the dollar, however, accounting or actuarial data, based in part upon historical costs and accumulated over a long period of time, can no longer be utilized without adjustment, conversion, or interpretation, for reaching sound conclusions, including, in particular, the decisions of regulatory commissions.

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Methods Used Are Regrettable

I is disturbing that new methods of depreciation computation and measure-

ment are being introduced to circumvent the penalties imposed by inflation. Inflation should be met face to face and not obscured or countered with subterfuges designed to overcome the effects and not the cause. To hide inflation's effects in the rate base, in the operating charges of depreciation, or even in the allowable rate of return are methods of obscuring actual conditions. Depreciation charges and the rate base should logically consider cost only.

If the value of our monetary unit has fluctuated, then there should be a separate item on the records of the business so indicating and adjusting to this fact. If replacement costs are higher due to

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changes in the price level or to changes in technology, then at the time of replacement, if such is to take place, additional funds must be raised as a part of the finance function, not as a part of the depreciation process.

I t seems speculative to this writer to consider replacement costs in computing current depreciation, especially when the cost of replacement, even ignoring technological developments, is quite uncertain twenty-five, ten, five, or even one year hence. Further, it is absurd to consider

replacement costs at all when the purpose of depreciation is amortization of cost.

For rate determination it is logical, if not mandatory, to consider the changes in the value of the monetary unit when establishing the rate base, depreciation charges, and the rate of return. It is felt, however, that these changes should not be reflected in any place other than their true light, unhidden in increased replacement depreciation charges, in increased allowable rates of return on original cost, or in arbitrary depreciation "accumulations" made with excruciating exactness.

employment and growth are impossible without a degree of gradual, or 'creeping,' inflation. . . . 'creeping' inflation, its condoners say, must be accepted as . . . the 'inescapable cost' of substantially full employment and growth at a maximum rate. . . .

'Creeping' inflation, like all inflation, would redistribute wealth and income. It would do so blindly, without regard to equity, needs, or desirability. Generally speaking, those who would lose by it would be those least able to afford it. . . .

"With acceptance of 'creeping' inflation . . . monetary depreciation would be the acknowledged long-term program. The people would be put on notice that their money was to be allowed to cheapen progressively year by year for an indefinite future period. Under such conditions, how long could 'creeping' inflation be relied upon to 'creep'? . . .

"Another very dubious assumption is that an acceptance of 'creeping' inflation would stimulate economic growth in the long run. Admittedly, the immediate effect of an increase in the money supply may be to stimulate demand . . . But such artificial stimulation puts off the moderate adjustments that are needed and natural from time to time in a free economy moved by fallible judgments and responsive to a wide variety of factors, both material and psychological. Such adjustments cannot be postponed forever. The need for them gains cumulative force through repeated deferment and eventually results in violent corrections. . .

"To acquiesce in the gradual destruction of the value of money, with all the blind injustice that the process would involve, in the unwarranted hope that such a policy would stimulate economic growth over the long term, would be a strange way of administering money for the benefit of the people. A policy of accepting 'creeping' inflation voluntarily would be a tragic error. Almost as tragic would be the error of allowing it to occur by default through failure to deal decisively with the factors that cause it."

-EXCERPT from The Morgan Guaranty Survey, Published by the Morgan Guaranty Trust Company of New York.

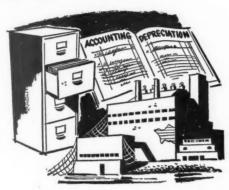
Tax Expense and the Income Statement

By L. LYNNWOOD ARIS*

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Tax allocation is no more a normalization of periodic income than is any other form of equating expenses and revenues. There is no such thing as a "permanent" deferral of tax expense, only a continuous adding and subtracting from the deferred credits account. The idea of making interperiod allocations of income tax charges complies with the generally accepted accounting principle of matching expense with income.

HAT is the correct income tax expense to show on a firm's income statement? This question has probably perplexed accountants since the inception of taxes levied on revenues. The issue was confused even more when, in 1944, the Committee on Accounting Procedure of The American Institute of Certified Public Accountants issued Accounting Research Bulletin No. 23 which contained the following statement:

. . . Income taxes are an expense that should be allocated, when necessary and

practicable, to income and other accounts, as other expenses are allocated. What the income statement should reflect under this head, as under any other head, is the expense properly allocable to the income included in the income statement for the year.¹

And, in 1945, the Securities and Exchange Commission said in its Accounting Series Release No. 53: "The amount shown as provision for taxes should reflect only actual taxes believed to be payable under the applicable tax laws." Obviously, the accountant cannot adhere to

^{*}Teaching fellow in accounting, University of Michigan. For additional personal note, see "Pages with the Editors."

¹ This statement is now part of § B, Chapter 10, of Accounting Research Bulletin No. 43.

both of these proclamations. He must analyze the entire problem in view of present accounting standards and principles and reach his own decision.

Most accountants seem to have accepted the principle that direct charges or credits to retained earnings and extraordinary income or expense items shown below the net income line on income statements should be presented "net of income tax effects," thus not affecting the income tax item on the income statement. The major controversy, therefore, seems to be over interperiod allocation, and this article will deal only with that type of allocation.

The question of interperiod allocation arises only when the income on which the period's tax charge is computed differs from the net income subject to tax which is reported on the company's income statement. In such cases, is the correct tax charge to be shown on that period's income statement, the tax actually charged by the government in that period, or is it that tax expense which would result from applying an appropriate tax rate to the reported net income before tax, adjusted for any permanent differences between reported net income and taxable net income?²

Interperiod Tax Allocation Is Best

This article supports the latter view. It proposes to show that interperiod allocation conforms better with the gen-

erally accepted accounting principle of matching expense and revenue, and that the usual arguments raised against such allocation-namely, that it normalizes income, that it assumes future taxable income subject to present tax rates, that there may be a "permanent" deferral of payment of the tax charges which have been allocated to previous periods, and that the position statement accounts resulting from such allocation methods are neither true assets nor liabilities-are not valid enough to cause the relinquishment of this principle. It also presents the view that the best answer to the liability half of the last argument may be a broader concept of the equity side of the position statement.

Matching Expenses and Revenues

ACCOUNTANTS have long accepted the principle that the expenses presented on an income statement should be those which attach to the revenue shown on that income statement. Any presentation of revenues should be matched by the best possible presentation of the costs which are incurred in the realization of such revenues. Those who advocate the allocation of income tax charges are simply conforming to this principle.

Application to Tax Allocation

APPARENTLY, income taxes in the United States will be in existence for quite some time. Thus, it seems reasonable to say that, after the deduction of certain nontaxable items and special legal deductions, the net income before income tax expense of a firm is going to be subject to a tax. The mere fact that the tax

² Certain items of revenue or expense may be included in the accounts but legally excluded permanently from consideration for tax purposes. Also, some special deductions are allowed under the tax laws which most likely would not be shown in the accounts. Adjustments should be made for these items when computing the allocated tax charge.

TAX EXPENSE AND THE INCOME STATEMENT

laws may permit a company to show a different net income subject to taxes in a particular period than that shown on the income statement does not make that taxable income on the income statement any less subject to taxes. If one is to properly match the tax expense with the revenue presented on the income statement, one must show not the tax paid or payable in the period, but that which would be paid if the tax rate were applied to the taxable income presented on the statement.

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An example of the distortion in reported net income which results when tax charges are not allocated is shown in the appendix to this article (page 135). In these examples it has been assumed that fixed assets worth \$500,000 are being depreciated by the sum-of-the-years' digits method for tax purposes and the straight-line method for statement presentation. The life of these assets is ten years. This

is the only difference between the taxable net income reported for tax purposes and for statement purposes. A 50 per cent tax rate has been assumed for simplicity.

I N the first five years the reported net income if tax charges are not allocated is greater than it would be if allocation methods were used. This occurs because the tax charges actually paid in these first years do not match the taxable income reported on the income statements. In the last five years the opposite is true. As a result, a correct matching of expenses and revenues does not exist in any of the nonallocated income statements. Thus, if one is to adhere to the principle of matching expenses and revenues, one must allocate the income tax charges whenever there is a difference between the income on which the period's tax is based and the taxable income reported on the income statement.

Presentation by Footnote

SOME accountants, recognizing that a discrepancy between income taxes charged to the period and those applicable to taxable income on the income statement should be revealed, suggest that the amount actually applicable to reported income should be shown in a footnote to the income statement. However, this does not present a proper matching of expenses and revenues within the statement itself. A preferable presentation is the showing of allocated charges in the statement with a footnote indicating the actual amount payable for that particular period. This would give a better net income figure and still show the actual income tax charges for the period.

Rebuttals to Arguments against Tax Allocation

In spite of the fact that tax allocation obviously conforms with the generally accepted principle of matching expenses and revenues, many arguments are raised against it. Perhaps the most common of these are:

- 1. Tax allocation normalizes income.
- 2. Tax allocation assumes that there will be future taxable income subject to present tax rates.
- 3. There may be a "permanent" deferral of the payment of tax charges which have been allocated to previous periods.

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4. The position statement balances which result from allocation are neither true assets nor liabilities.

Each of these arguments can be disproved.

Normalization of Income

THE opponents of tax allocation claim that it results in the normalization of periodic income. Thus, they would point to an example such as the one given in the appendix and say that the fact that the net income under allocation methods is the same in all ten years proves that allocating normalizes income. In other words, allocation does not reflect the periodic fluctuations in net income, but attempts to smooth these fluctuations and keep periodic net income at a "normal" level. These persons insist that the tax expense on the income statement should be that actually assessed by the government for that period

—an argument for a historical income statement.

One could use this same argument against any type of matching of expenses and revenues. For instance, one could say that recognizing periodic depreciation on fixed assets instead of charging the entire cost of such assets to income in the period in which they were acquired is a form of normalizing income. Granted, income tax charges do not attach to physical objects as costs of fixed assets do, but neither do depreciation charges necessarily match the physical deterioration of such tangible goods. Indeed, very few (if any) accountants would say that the periodic depreciation expense should match that period's physical deterioration of the assets. Similarly, few accountants would hold that the periodic charging of asset cost to revenues through depreciation is a normalization of income.

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THE LOGICAL consequence of adherence to the theory that allocating tax charges normalizes income would be to recognize expenses only as they are paid. Thus, accounting would be reduced to a mere recording of cash transactions. Certainly this would be a long step backward for accounting and one that would result in very inaccurate statements. To correctly present periodic net income, the expenses and revenues must be matched as closely as possible. It seems illogical that matching tax charges to the revenues which create them is any more conducive to the normalization of income than any other form of matching expenses and revenues.

TAX EXPENSE AND THE INCOME STATEMENT

Future Taxable Income Subject to Present Tax Rates

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OPPONENTS of tax allocation also say that when taxes which are not yet payable are charged against present revenues (which is the usual result of tax allocation because businesses are attempting to reduce present tax payments), there are implicit assumptions that the business will have income in the future that is subject to income taxes and that the tax rate on such future income will be identical to the present tax rate. It is true that such assumptions exist, but they do not invalidate the principle of income tax allocation.

Many accounting practices are based on the "going concern" concept. For example, both the recognition of prepaid expenses and the idea of depreciation accounting imply a "going concern." Few organizations other than the federal government can exist for long in the face of continuous deficits. Thus, one could say that accounting assumes not only a "going concern," but also a profitable concern. In view of the present political philosophy in the United States, it seems rather unreasonable to assume that a profitable business will not be subject to income taxes in the future. Hence, under present conditions the generally accepted accounting principle of a "going concern" implies an income tax-paying concern. It appears, therefore, that the most valid part of this particular argument against tax allocation is that allocation methods assume that the present tax rates will apply to future taxable income.

WITH tax laws constantly subject to change, this assumption is admitted-

ly weak. This is especially true in situations where the business regularly has taxable income near the level at which the rates change. However, since the exact rates of the future are unknown, in most cases the present rates are the best estimate one can use for future rates. The errors which occasionally result from the application of present rates certainly are outweighed by the error in reported net income which results from not allocating income tax charges.

Moreover, it appears that any changes in the federal income tax rates in the near future will be increases or perhaps a slight decrease. Thus, allocating at present tax rates results in a much better matching of expenses and revenues than nonallocation does even when the present rates are not identical to the future rates.

If allocated tax charges are viewed as attaching to some specific source of difference between reported taxable income and the actual income taxed, the question of what rates will be in effect in the future is irrelevant. The allocated tax charge is determined under present conditions and only the question of timing remains. For example, assume that a cash payment for a five-year lease is received in the present period. The entire payment is recognized as revenue for tax purposes in the present period, but on the books the revenue is spread over this and the next four periods.

In such a case, only one-fifth of the total income tax applicable to such revenue would be charged to the present period. The remaining four-fifths would be debited to "Deferred Charges to Income Tax Expense." In the succeeding four

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periods as the revenue is recognized, the deferred tax charge applicable to such revenue is charged to income. It makes no difference if the tax rates change within the next four periods, because the tax charge was determined when the allocation took place. Only the question of when such tax expense is to be charged to income remains.

"Permanent" Deferral of Tax Payments

ANOTHER argument frequently raised against income tax allocation is that charges to present periods which are not yet payable may never become payable.

It is true that under certain conditions there will be a continuous position statement appearance of the account, "Deferred Credits to Income Tax Expense." For example, a company which replaces its machinery in such a manner that it maintains a constant number in operation, or which is continually adding to the number in operation and uses some accelerated depreciation method only for tax purposes, will find that it has a stable or growing balance in its "Deferred Credits to Income Tax Expense" account. However, the more or less permanent balance in this account does not indicate that there is a permanent deferral of the payment of tax charges which have been allocated to previous periods.

GRAHAM presents the most logical answer to this argument when he says:

The credit balance in this liability account reflects the net effect of two sets of repetitive transactions that may offset one another: (a) the periodic additions to the potential future tax liability which arise from successive deduc-

tions for tax purposes prior to recognition as expense, and (b) the "maturing" of segments of this liability, periodically, as the items which have been taken as deductions for tax purposes in prior periods are recognized as expenses.

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... segments of this liability do mature, and ... it is only offsetting additions to the liability that avoid a net decrease in the total liability.8

TERTAINLY the fact that there is a continuous balance in this account is no reason to ignore its existence. This philosophy would lead to the conclusion that no account which has a more or less permanent credit balance should be recognized. Thus, a bond issue which may possibly be paid with the proceeds of another issue should not be recognized as a liability. Similarly, if the balance in accounts payable is constant or growing, there is no need to present such a balance on the position statement because the maturing of some of these accounts payable is offset by increases in others and, consequently, there is no net payment.

Obviously, these propositions are ridiculous, but no more so than the argument that the "Deferred Credits to Income Tax Expense" account should be excluded from the position statement because it may appear there for a long period of time.

Nature of Position Statement Accounts

PROBABLY the most formidable argument presented against income tax al-

^{8 &}quot;Allocation of Income Taxes," by Willard J. Graham, The Journal of Accountancy, January, 1959, p. 63. While Graham calls this account a liability, this author thinks it is part of owners' equity. Graham's interpretation applies, however, regardless of the location of the account in the position statement.

TAX EXPENSE AND THE INCOME STATEMENT

location is that the resulting position statement accounts are neither true assets nor liabilities. While it can be shown that the debit balance account is an asset, the liability half of this argument has substantial merit.

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"Deferred Charges to Income Tax Exbense": When income tax charges are paid or recognized as payable, but have not yet been recorded as an expense, there arises a position statement account with a debit balance which may be called "Deferred Charges to Income Tax Expense." The opponents of tax allocation claim this account is not a true asset because, while it purports to be an advance payment, it is not recognized as such by the governmental body receiving it. However, the interpretation of a transaction by one party, while influential, is not necessarily the determinant of the interpretation which should be given by the other party. From the standpoint of the government, the tax has been paid on legally taxable income, but from the taxpayer's view, the income has not yet been recognized and a payment of a tax attaching to such income is definitely a prepayment.

Many assets can be looked upon as costs which have not yet been recorded as expenses. Thus, from an accountant's position a physical asset, such as a building, can be interpreted as an accumulation of costs which have been paid but have not yet been recognized as expenses.

Even more analogous to the treatment of deferred tax charges is the method often applied to insurance payments. Even though the insurance company may recognize a payment as immediate revenue, few accountants would deny that at least part of the payment may be legitimately treated as prepaid insurance on the books of the insured. The account, "Deferred Charges to Income Tax Expense," is merely a recording of tax charges which have been paid but have not yet been recognized as expenses. As such, this account is truly an asset.

"Deferred Credits to Income Tax Expense": Nonallocationists similarly say that the credit balance resulting when taxes are charged to income but are not paid or recognized as payable is not a true liability because it is not a legal obligation and no one owes anybody anything. In other words, the account, "Deferred Credits to Income Tax Expense," presents "not what the firm is liable for, but what the firm expects to be liable for at some time in the future." There is considerable merit to this position.

UNDER present accounting standards there are three possible interpretations of a position statement account with a credit balance. It may be either a liability, a contra-asset, or part of owners' equity. Maintaining strict compliance with generally accepted accounting principles, the credit balance arising from tax allocation methods falls into none of these categories.

The account certainly is not a liability. While this account shows what is expected to be paid in the future, there is no actual obligation to pay anything at the present time. Thus, from the standpoint of the current position statement there is no liability.

⁴ Graham, "Allocation of Income Taxes," p. 62.



Recommendation of the AICPA

THE American Institute of Certified Public Accountants has suggested that when allocation is a result of accelerated depreciation methods for tax purposes, the resulting credit balance can be viewed as additional depreciation applicable to those assets. This suggestion is based on the theory that such additional depreciation shows the loss of future tax deductibility for income tax purposes. While it is true that assets which have lost their tax deductibility are probably not worth as much as those which have not, the method suggested here carries a strong inference that asset accounts reflect values.

Accountants have long recognized that the amounts shown on the position statement under fixed assets represent the original cost of the asset reduced by the portion of this original cost which has been charged to revenue or other accounts through depreciation methods. No attempt is made to show current market value, replacement cost, or any other type of value. There is little reason to depart from this principle in order to find a place on the position statement for a credit balance arising from income tax allocation.

PRESENT accounting standards do not permit this credit balance to be interpreted as part of the stockholders' equity.

Currently, stockholders' equity is divided into capital, which includes both paid-in amounts and capitalized earnings, and accumulated earnings. The accumulated earnings may be segregated into retained earnings reserves and unreserved retained earnings. Certainly deferred credits to income tax expense are not part of paid-in capital or capitalized earnings. Since accumulated earnings arise from the difference between revenues and expenses, it would also be illogical to say that an account which is the result of the recognition of one of those expenses can possibly be a part of such earnings.

Moreover, since it is widely accepted that a retained earnings reserve can arise only through a debit to the retained earnings account, it is impossible to interpret

⁵ See the revision of Accounting Research Bulletin No. 44, paragraph 5.

deferred credits to income tax expense as an earnings reserve. Thus, under present accounting standards the credit balance resulting from income tax allocation cannot be a part of stockholders' equity.

Consequently, there appears to be a direct conflict in accounting principles. In order to present net income correctly, one must allocate tax charges to obtain a proper matching of expenses and revenues. Yet, when a position statement account with a credit balance results from such allocation, current accounting standards provide no place for such an account on the position statement.

Broader Concept of Equity Side Of Position Statement

THE solution to this conflict seems to be a widened view of the equity side of the position statement. Most readers of financial statements, especially governmental bodies, labor unions, and many stockholders, seem primarily interested in earnings. "The income statement, therefore, is the most important accounting report." If one of the conflicting accounting principles must be altered, it should be the one affecting the position statement, not the one involving the income statement.

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The present interpretation of a liability as an amount currently owed is a good one and should not be changed. Thus, deferred credits to income tax expense may be shown either as part of stockholders' equity or in a separate section of the equity side of the position statement placed between liabilities and stockholders' equity. The former presentation seems better.

THE equity side of the position statement has traditionally presented just what it implies—ownership. Basically, this side of the position statement indicates who owns what portion of the assets shown on the other side of the statement. To place the account, "Deferred Credits to Income Tax Expense," in a separate section between liabilities and stockholders' equity would contradict the overall concept that the right-hand side of the position statement shows equities. Such a presentation does not indicate ownership on the part of anyone.

Actually, such deferred credits are part of the ownership of the stockholders. Expenses which have not yet been paid or recognized as payable have been properly charged to revenue. This has resulted in lower earnings and, hence, a lower stockholders' equity than would have resulted if taxes had not been allocated. Yet, obviously these lower earnings have not occurred because of the reduction in any asset or the assumption of any liability. Therefore, the portion of assets owned by the stockholders (stockholders' equity) is the same as it would have been if the income tax charges had not been allocated. However, as was previously pointed out, the deferred credit balance is not part of the retained earnings section of stockholders' equity because this section indicates the difference between the revenues and the expenses which have been recognized. Thus, there is a need for an additional segment of the stockholders' equity section of the position statement.

THE most logical place for credit balances which arise because of the correct recognition of expenses before an ac-

⁶ An Introduction to Corporate Accounting Standards, by W. A. Paton and A. C. Littleton (American Accounting Association, 1940), p. 10.

tual payment or the recognition of a liability is at the head of the stockholders' equity section. The revised stockholders' equity section would appear as follows:

Stockholders' Equity:

Deferred Credits to Income Tax Expense Capital Stock Outstanding—		xxx
Par		
Retained Earnings	xxxx	xxxxx
Total Stockholders' Equity		xxxxxx

Of course, it would be possible to present the deferred credits in a separate section between liabilities and owners' equity and interpret this section as part of the owners' equity. This would have no advantage over the suggested presentation, however, and it would have the disadvantage of introducing a new section in the equity side of the position statement with no indication of the type of ownership such a section represents.

The major advantage of presenting the deferred credits to income tax expense in the manner suggested is that this method does not destroy any existing accounting principles. Thus, it permits a proper matching of expenses and revenues: it leaves fixed asset balances at original cost less depreciation and does not imply an attempted valuation; it clearly presents the right-hand side of the position statement as a statement of equities; and it does not destroy the principle that earnings reserves should be established only through debits to retained earnings. All that this suggested method does is to reconcile presently conflicting accounting principles by introducing a slightly broadened concept of the stockholders' equity section of the position statement.

Thus, in support of interperiod income tax allocation, one finds:

- Interperiod allocation of income tax charges complies with the generally accepted accounting principle of matching expenses and revenues. The actual charges for the period may be shown in a footnote to the income statement.
- 2. Tax allocation is no more a normalization of periodic income than any other form of matching expenses and revenues.
- 3. The assumption of future taxable income is equivalent to the common accounting assumption of a going concern; current tax rates are the best estimate one has of future tax rates and using them results in a smaller error than nonallocation. Also, future tax rates are irrelevant under one interpretation of deferred income tax charges and credits.
- 4. There is no such thing as a "permanent" deferral of tax expense, but only a continuous adding to and subtracting from the deferred credits account similar to the handling of accounts payable.
- 5. While the debit balance position statement account rising from tax allocation is a true asset, the credit balance account has no place on the position statement under the present interpretation of position statement accounts with credit balances.
- 6. The best reconciliation of the conflict between proper reporting of income through tax allocation and the lack of a place on the position statement for the deferred credits account is a broadened concept of the stockholders' equity section of the position statement.

TAX EXPENSE AND THE INCOME STATEMENT

For these reasons, income tax charges for such tax-paying corporations should

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APPENDIX

COMPARISON OF ALLOCATED AND NONALLOCATED INCOME STATEMENTS

Fixed assets worth \$500,000 are depreciated by the sum-of-the-years' digits method for tax purposes and the straight-line method for statement presentation.

ALLOCATED STATEMENTS

Revenues Other Expenses	Identical for all ten years	\$1,000,000
Depreciation		30,000
Net Income		\$ 225,000

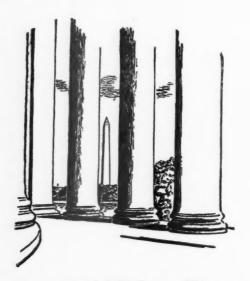
NONALLOCATED STATEMENTS

Revenues Other Expenses Depreciation Income Tax Net Income	1st Year \$1,000,000 500,000 50,000 205,000 \$ 245,000	2nd Year \$1,000,000 500,000 50,000 210,000 \$ 240,000	3rd Year \$1,000,000 500,000 50,000 212,500 \$ 237,500	4th Year \$1,000,000 500,000 50,000 217,500 \$ 232,500	5th Year \$1,000,000 500,000 50,000 222,500 \$ 227,500
Revenues Other Expenses Depreciation Income Tax Net Income	6th Year \$1,000,000 500,000 50,000 227,500 \$ 222,500	7th Year \$1,000,000 500,000 50,000 232,500 \$ 217,500	8th Year \$1,000,000 500,000 50,000 237,500 \$ 212,500	9th Year \$1,000,000 500,000 240,000 \$ 210,000	10th Year \$1,000,000 500,000 50,000 245,000 \$ 205,000

COMPUTATION OF NONALLOCATED CHARGES

Year	Depreciation For Tax Purposes	Taxable Income	Tax Charge*
1	\$90,000	\$410,000	\$205,000
2	80,000	420,000	210,000
2 3	75,000	425,000	212,500
4	65,000	435,000	217,500
5	55,000	445,000	222,500
6	45,000	455,000	227,500
7	35,000	465,000	232,500
8	25,000	475,000	237,500
9	20,000	480,000	240,000
10	10,000	490,000	245,000

^{*}A 50 per cent tax rate was assumed for simplicity.



Washington and the Utilities

Court Curb Bill Passes House

The so-called states' rights bill passed by the House on June 24th, introduced by Representative Smith (Democrat, Virginia), will have great difficulty in escaping the Senate Judiciary Committee, and probably will be doomed if it reaches the Senate floor. Sources close to the Senate Democratic leadership said it was highly significant that Senator Dodd (Democrat, Connecticut) took the floor and denounced the measure as a "dangerous one-shot attempt to rewrite history" that would "put the Supreme Court in a strait jacket."

Dodd is acting chairman of the Internal Security Subcommittee, which is custodian of a similar bill authored by Senator McClellan (Democrat, Arkansas). The subcommittee recently completed three weeks of hearings at which spokesmen for business, labor, and Negroes denounced the McClellan measure and others similarly designed to hit at the Supreme Court.

Before Dodd spoke, Senator McClellan announced he would press for action by the Senate this session on his measure paralleling the House-passed bill, but he himself conceded that it might be shoved aside until the second session of the Congress next year. The Senate last year pigeonholed by a one-vote margin a similar McClellan proposal in the closing days of the session. Dodd's sharp opposition demonstrated that the odds against passage are greater in this Congress. It was generally agreed that if Dodd, a former FBI agent, feels strongly, there is little prospect that other Democrats of the North and West who replaced conservative Republicans last fall would be inclined to vote for the states' rights bill.

STATE utility antistrike laws have been among those stricken down by the U. S. Supreme Court under the pre-emption doctrine of paramount federal jurisdiction. Most important of these was the Wisconsin utility antistrike law, invalidated in 1949 on grounds that Congress, in passing the Taft-Hartley Act, had asserted a paramount federal interest in the regulation of labor disputes in essential industries such as public utilities. Another important state utility antistrike law, which has been on the Missouri statute books for some years, is now before the U. S. Supreme

Court for review. This is the King-Thompson Act, which the highest court has agreed to take up next fall following an appeal from the Missouri supreme court upholding this state law.

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If Congress should approve the Smith Bill, the position of state utility antistrike laws would be re-established. Primary source of agitation for the Smith Bill is frustration from attempts to prosecute for sedition. A major argument made against the bill is that no one is quite sure what the effect of an across-the-board retroactive approach would be. Opponents say it would cause a flood of litigation over past acts of Congress, and might strike down uniform federal regulatory programs in many fields. Supporters say HR 3 is simply a guide for the courts and does no more than codify the present pre-emption rule.

HE measure, as passed by the House, contains two sentences. The first states that courts shall not construe an act of Congress as pre-empting a field (thus preventing state action) unless the act so states or unless there is such a "direct and positive" conflict between federal and state law on the same subject that they cannot be "reconciled or consistently stand together." The second sentence states specifically that Congress in passing the Smith Act of 1940 did not intend to prevent states from prosecuting sedition against the United States. The Supreme Court ruled in 1956 that Congress had intended to pre-empt this field.

The first of the two sections in the House-approved bill is widely—and erroneously—interpreted in the South as one that would reverse the high court's school desegregation decision, which was based not on congressional statute but on constitutional provisions. Southern Democrats have pushed the legislation to vent

their irritation over Supreme Court decisions in the civil rights field. They have had some support from Republican conservatives irritated by court decisions in cases involving alleged subversion.

CATCO Gas Rate Case Goes Back to the FPC

So-called "gas consumer interests" in the East won a round in the U. S. Supreme Court on June 22nd in litigation over the price for gas piped from the Gulf of Mexico. The high court unanimously overturned a Federal Power-Commission order permitting Tennessee Gas Transmission Company to pay an initial rate of 21.4 cents a thousand feet for gas bought from four producers. The producers are Atlantic Refining Company, Cities Service Production Company, Continental Oil Company, and Tidewater Oil Company. (See, also, page 171.)

The Supreme Court's action sends the matter back to the FPC for further proceedings. In previous proceedings the producers were once told the initial rate had to be cut to 17 cents, with the right given the producers to file requests for an increase up to 21.4 cents after they began deliveries to Tennessee Gas.

The producers refused to accept the cut and the commission later approved the gas sale at an initial rate of 21.4 cents. The commission made the 21.4-cent rate subject to investigation as to reasonableness. In June, 1959, the producers began sales to Tennessee Gas under this FPC authorization.

Before the service to Tennessee Gas began, however, the New York Public Service Commission, the Long Island Lighting Company, and the Public Service Electric & Gas Company appealed the commission's last action. Their appeals were filed with the United States circuit court in Phila-

delphia. The circuit court on June 30, 1958, held that the commission's first finding—that there was insufficient evidence of reasonableness for the proposed rate of 21.4 cents—barred the commission on rehearing from removing the original rate reduction requirement solely because the producers threatened to withdraw their gas from the interstate market.

Argument for the producers was made before the high court by David T. Searls of Houston; for Tennessee Gas Transmission Company by Harry S. Littman of Washington, D. C.; for the New York Public Service Commission by Kent H. Brown of Albany; for Long Island Lighting and Public Service Electric & Gas by Edward S. Kirby of Newark, New Jersey.

RATE experts at the New York commission, on the day of the decision, said that it would have no immediate effect on customers of the three companies in the metropolitan area which buy gas from Tennessee. The companies are Consolidated Edison, the Brooklyn Union Gas Company, and the Long Island Lighting Company. They also buy gas from the Transcontinental Gas Transmission Company and the Texas Eastern Gas Transmission Corporation for 2.8 million customers in New York city, Long Island, and Westchester county.

Spokesmen for Consolidated Edison and Brooklyn Union could see no immediate gain to their customers as a result of the Supreme Court decision. Long Island Lighting called the decision "a definitely favorable one from a consumer's standpoint." The spokesman for the Long Island Company explained that the decision would force the FPC to act immediately if the price of gas appeared too high. It said the commission had hoped to put off the question of price for a few years until

a formal rate investigation would have been completed.

James A. Lundy, chairman of the New York Public Service Commission, said the decision marked the end of five years of efforts by his group "to halt the skyrocketing of producer prices for natural gas." He gave credit for the victory to the commission's counsel, Kent H. Brown.

Senate to Get Broader TVA Revenue Bond Bill

SENATE committee last month approved a self-financing plan for the Tennessee Valley Authority which gives that agency better treatment than did a measure the House passed several weeks ago and also removes two arguments that enemies of TVA have used in seeking a presidential veto. The bill, which does the seemingly impossible of pleasing both friend and enemy of TVA more than did the House bill, was sent to the Senate by unanimous vote of the full Public Works Committee. Its contents were worked out by two members of the subcommittee on flood control, Kentucky Republican John Sherman Cooper and Oklahoma Democrat Robert S. Kerr.

The Senators made changes in the House bill in three vital fields:

- 1. They kept the geographical limitation on the area TVA may supply with power. But they gave that area flexible boundaries so that cities on the edge can hope to be included in the future. The Senators specifically added the Kentucky cities of Fulton and Monticello to the service area. Those two had been omitted by the House bill. They also kept Paducah, Princeton, and Glasgow in the service area, as did the House.
- 2. They got the Treasury Department and the TVA to agree on a compromise under which the Treasury can provide

guidance to the power agency in the sale of its revenue bonds. But the agreement still leaves TVA with full control over its financing.

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3. They forced upon the unwilling Budget Bureau an arrangement by which Congress can, by affirmative action of the two houses, block expansion plans of the agency. But it refused to give the bureau the direct veto power it wanted to exercise over each project.

YOOPER, who guided a TVA financing plan through the Senate last year, only to see it die in the House, said he believes the bill he and Senator Kerr constructed will meet little opposition in the Senate, in view of the unanimous vote of the Public Works Committee. The Kentuckian also said he does not believe the House will object to the changes made in the measure it passed May 7th by a vote of 245 to 170. With the Treasury-TVA compromise on financing and with the provision giving Congress power to stop projects proposed by the agency, Cooper said he saw no reason to fear a presidential veto.

There had to be a geographical limitation on the power service area, Cooper said, or the enemies of TVA would have killed the bill. The measure got through the House in May only because a limitation was included. But the House geographical limit was a specific one which exempted the specified cities of Paducah, Glasgow, Princeton, South Fulton, Tennessee, and Chickamauga and Ringgold, Georgia. The Senators not only added Monticello, Fulton, and the atomic energy city of Oak Ridge, but also made the boundaries flexible.

An amendment offered by Cooper provides that, in addition to the area served as of July 1, 1957, TVA can expand up to

2½ per cent of its present region or by 2,-000 square miles, whichever is less. Such flexibility, Cooper said, gives the agency elbowroom, space in which to maneuver, an opportunity to add cities or parts of power co-operatives which would be excluded under the rigid restriction.

Most important, the Kentuckian said, it enables the agency to continue its "yard-stick" performance by presenting a constant reminder to private utilities that Congress could expand it further. This flexibility may permit additional western Kentucky communities to get into the area in the future.

COOPER said the Treasury-TVA compromise on the issuance of bonds was the single-handed achievement of Senator Kerr, millionaire oilman. The Treasury had demanded complete control over the issuance and sale of any of the \$750 million in bonds for the power agency. Such control, the friends of the agency argued, would give the Treasury the power of life and death over it. On the other side, the Treasury spokesmen argued, TVA should not be allowed freedom to offer bonds at the same time the government was pushing other securities.

The Kerr compromise does this—when TVA wants to sell \$10 million in bonds for a new steam plant or transmission line, it must ask the Treasury to set a date for the offering. The Treasury would have the right to delay the sale for as long as eight months. But if it did delay the offering by as much as a month, the Treasury would have to lend TVA the money and the agency would pay back the Treasury when sale of its securities was finally made.

Cooper said the Treasury and TVA were content with that arrangement, but that the Budget Bureau continued to insist it should have control over projects.



House and Senate Fix Termination Date for Phone Tax

The telephone companies were more than halfway successful in their fight to receive excise tax relief. The gain will be strategic rather than tangible and will consist of having an expiration date put on the 10 per cent local telephone bills. The tax on long-distance calls will continue.

Prior to this bill the telephone companies have been under a procedural handicap because these taxes continue automatically, rather than expiring periodically as do other excise taxes.

HR 7523, which extends the excise tax on liquor, automobiles, etc., was then amended in the Senate to include a bill (S 2090) introduced by Senator Kerr (Democrat, Oklahoma), which sets June 30, 1960, as the date on which the telephone-telegraph excise tax will expire. The amended bill then went back to the House where that body watered down the Senate changes. But the final bill which becomes law still retains the one-year deadline on the monthly bill tax.

Now that the President has signed the measure the telephone industry will be in a position to have this legislation actively considered in 1960. Because of the present automatic continuance of the tax,

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it has been all too easy for the legislators to sidetrack or overlook any action on this matter.

The administration as well as the Democratic leadership in Congress would be opposed to granting any substantial tax relief at this time because of the approximately \$700 million in revenues which are derived from telephone-telegraph taxes. In spite of this there have been some feeble attempts to remove the tax altogether. The numerous bills introduced (over 100 in number) to repeal the telephone-telegraph tax have been prompted by the vast pressure put on the legislators through their constituents.

Tax measures, under the terms of the Constitution, must arise in the House. A Senate amendment, however, can be added to a House bill, and this is how it happened that an expiration date was enacted. The elimination of the local bill tax would cost the Treasury an estimated \$430 million.

Chairman Mills (Democrat, Arkansas) of the House Committee on Ways and Means—the committee responsible for tax legislation—has stated that he would not support reduction of such taxes if it would push the government into the red or more deeply into the red than it otherwise might be.

The enactment of a specific expiration date marks the first real progress in the fight that the telephone-telegraph industry has been waging to have the World War II tax removed.

Court Rejects Delaware Tax On ATS T's Wires

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A Delaware chancery court has ruled unconstitutional a state tax which has been in effect since 1909. Although the tax has been on the books for years it has only been levied once, in 1957, against American Telephone and Telegraph's long-distance wires in that state. The court ruled in favor of AT&T in a suit against Delaware state tax and fiscal officers. The court held that the attempt to assess AT&T would have to be considered a privilege tax and not a property tax and that it placed an unconstitutional burden on the company's interstate business.

AT&T is a New York corporation and it brought suit against the Delaware state treasurer after the latter had rejected the company's objection that it was not subject to a Delaware tax on those engaged in the telephone business in that state.

Vice Chancellor Marvel agreed with AT&T that the imposition of the state tax would violate the federal Constitution's protection of interstate commerce. The court stated:

When a telephone message originates or terminates in Delaware, the Diamond State Telephone Company receives or delivers the call, plaintiff merely furnishing the means for carrying such messages from or into the state.

The Diamond State Telephone Company is an associate company of AT&T, carrying on an intrastate business in Delaware.

In rejecting the state tax claim the vice chancellor stated:

Here the tax clearly does not fall directly upon the plantiff's lines of wires or transmitters as such but is rather imposed on the occupation of being engaged in the telephone business, whether as owner, lessee, or otherwise with no distinction being made between intrastate and interstate business.

Pennsylvania Resort Area Receives Complete Dial Service

O^N June 21st, Stroudsburg, Pennsylvania, was converted to a modern dial switching center. Stroudsburg is the municipal center of the Pocono Mountain resort area of Pennsylvania, which attracts visitors from both New York city and Philadelphia.

Numerous modifications in the existing Bell Telephone Company facilities have been made and the area now possesses some of the best resort telephone equipment and service in the world.

Underground cables have replaced aerial cables crossing a local stream. (The necessity of this measure was pointed up during the disastrous flood of August, 1955.) A new maintenance center has been built to house the additional dial equipment and open wires in rural areas have been replaced by cables.

The new installation is integrated into the recently introduced direct distance dialing system. This is especially valuable in a resort area where numerous long-distance calls are placed each year.

The recent conversion culminates a long history of telephone use in the area. Telephone communication was first introduced in 1891 by Edwin Peters. He installed a 13-mile line between his resort hotel and

the local train depot. In 1926 the Bell company took over the existing facilities, which even then had expanded far beyond Edwin Peters' wildest dreams.

Since the area is in close proximity to both New York city and Philadelphia it has long been eyed as an evacuation center in the event of war. Local hotels, resorts, and camps could provide about 40,000 beds should such an event come to pass. Thus, the recent telephone improvements not only contribute to the convenience of residents and vacationers but these improvements also provide strong communications links with an area which might be of vital importance in the time of a national emergency.

New York City Condenses Phone Directory

Many two-line listings in the New York city telephone directory have been eliminated by not spelling out the exchange names. The new directory, issued in mid-June, carries listings such as "PE 6-4000" rather than "PEnna 6-4000." The two-letter substitution is being made whenever changes are made in a subscriber's listing because of moving or because of a change in telephone number. The shorter form will also be used in cases where an extra line in the directory can be eliminated through the use of the two-letter system.

The squeezing process has eliminated 66 pages from the new directory and when this figure is projected to the total telephone subscribers in the New York area, the saving is tremendous. The directory is still 1,766 pages long, however.

It is anticipated that by next year onethird of the directory will be converted to the new two-letter system.

A new cover design has been initiated

by the New York Telephone Company which is designed to make subscribers aware of the New York city direct distance dialing code number—212. A company official has stated:

The extent to which the public comes to think of phone numbers in the new form, including the area code, as part of the telephone number, will be important to the high speed, convenience, and low cost of future telephone service.

Chicago has also been slimming down its giant directory. Five columns of names appear on a page in the Chicago directory, as contrasted with four columns in New York and in most other cities.

The new directory begins the process which will put such exchange names as "Murray Hill," "Butterworth," "Plaza," and "Trafalgar" into the realm of memories. Some people have wondered just what novelists and song writers will do for a substitute. These exchange names have long been part of the luster associated with city living. But as one New York Telephone Company official commented, "the ring in SPring don't mean a thing."

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Cable Ship Fire Will Not Delay Transatlantic Cable

THE fire on the ship Ocean Layer will result in "little if any delay" in completing the first telephone cable between North America and the mainland of Europe. Completion date for the twin cables, stretching from Clarenville, Newfoundland, to Penmarch, France, is some time this fall. At the time of the fire only 700 miles of cable had still to be laid. When completed the twin cable will span a distance of 2,400 miles.

Fortunately, all aboard were rescued.

Financial News and Comment

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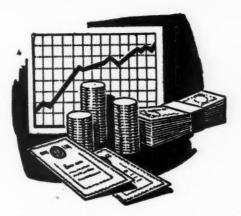
BY OWEN ELY

\$195 Million Grant County PUD Wanapum Hydro Bonds Sold

ANOTHER financial milepost in the financing of hydroelectric projects in the Pacific Northwest was passed with the recent successful offering of \$195 million Grant County (Washington) PUD No. 2 Wanapum hydroelectric revenue bonds. About \$179 million of these bonds will mature in fifty years and carry a coupon of $4\frac{7}{8}$ per cent (tax free); the remainder of nearly \$16 million will mature serially during 1967-79 and carry varying interest rates. The bonds are being offered by a syndicate headed by Dillon, Read & Company, Kuhn, Loeb & Company, and others.

At this writing only a preliminary prospectus is available, which may be sub-

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ject to additions and corrections. The Wanapum development will have ten generating units, construction of which is scheduled to be completed by January 1, 1964. Peaking capability will approximate 888,000 kilowatts (subject to various contingencies), as described on page 7 of the circular. The project is the "second leg" of the Priest Rapids-Wanapum development licensed by the Federal Power Commission nearly four years ago. Priest Rapids was financed in 1956 by the issuance of \$166 million 37 per cent bonds, and construction of that project is now about 80 per cent complete. Both projects are on the Columbia river in central Washington; Wanapum is about 18 miles upstream from Priest Rapids and 38 miles downstream from the Rock Island dam.

ALMOST the same group of private and public utility agencies are interested in taking power from both developments. Based on the totals for power contracts and reserve power contracts, Pacific Power & Light and Portland General Electric will each take about 30 per cent of Wanapum's output. (They have 25 per cent of Priest Rapids power.) Puget Sound Power & Light will take 17 per cent and Washington Water Power 13 per cent, with the remainder split among municipalities and PUD's. The smaller percentages taken in the Priest Rapids develop-

ment by the private companies are explained by the fact that Tacoma and Seattle each take 8 per cent of the power from the earlier development. The operations of Wanapum will be co-ordinated with those of the Northwest Power Pool.

As frequently reported, the Pacific Northwest would face a shortage of primary electric energy by 1965 if Wanapum were not constructed. The circular on page 16 contains a table indicating that average firm energy loads during the winter seasons should increase from 5.4 million kilowatts in 1959-60 to 9.5 million in 1969-70, an increase of about 76 per cent. Including Wanapum there would still be a small power deficit five years from now and by 1969-70 this would increase to about 1.4 million (without Wanapum, 1.7 million). However, the estimates are on a very conservative basis (assuming that the critical water conditions experienced in 1936-37 will be repeated) hence the deficiency may not prove as large as estimated. The circular states:

In spite of the existence of a large number of undeveloped hydroelectric sites in the Pacific Northwest, the time is approaching when new thermal-electric generating plants will be constructed to assist in carrying the region's growing loads, probably within ten years. Wanapum power costs are estimated to be substantially less than the cost of power from fuel-fired plants. A further major advantage of Wanapum power is the assurance of substantially constant power costs during the period of the amortization of the bonds.

Federal Surplus Best Way to Reduce Interest Rates

Secretary of the Treasury Robert B. Anderson recently gave the House

Ways and Means Committee a very lucid discussion of rising interest rates and how to check them. In the postwar period debts have increased as follows, in billions of dollars:

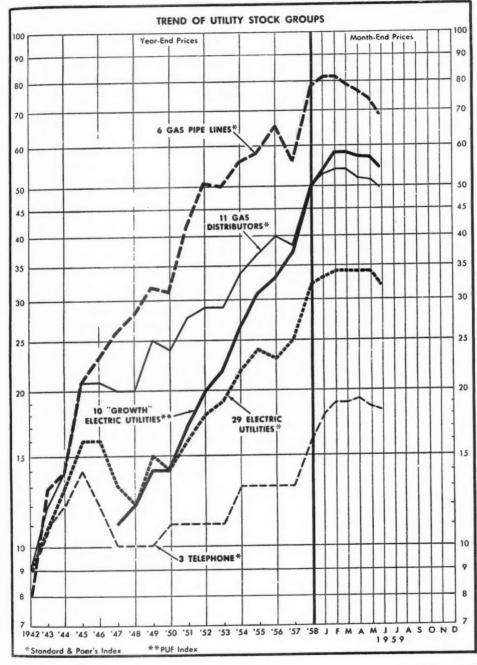
Individuals	1946 \$ 61 111	1958 \$240 298	Per Cent Increase 293% 168
State and Local Gov- ernment Units Federal Government .	16 260	59 283	269
Totals	\$448	\$880	96%

There had to be an increase in the supply of funds to take care of these loans, and it had to come either from savings or newly created paper money. If the latter, prices would go up—unless the supply of commodities and services increased to a corresponding degree. Hence, according to Secretary Anderson, "it is no accident that consumer and wholesale prices have more than doubled during the past twenty years, in view of the fact that a fourfold increase in the active money supply was only partly matched by an approximate doubling of real production of goods and services."

It is sometimes argued that rising interest rates are inflationary, since corporations may increase their prices to pass along to consumers the higher cost of capital. (Senator Lyndon B. Johnson was quoted, a few days after Secretary Anderson's statement, as saying "few things have contributed as much to inflation as rising interest rates.") Mr. Anderson considered this argument fallacious: Borrowed funds are used primarily to facilitate spending (for construction, larger inventories, loans to customers, etc.) and high money rates mean that some borrowers cannot obtain as much as they wish, hence there is a brake on spending, which acts against inflation.

Moreover, the Secretary stated, higher interest costs are not much of a factor in

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the total cost of doing business, hence would be unlikely to affect prices. In 1957 net interest costs for all manufacturing corporations were only about 0.4 per cent of sales; and even for public utilities interest expense would be less than 4.5 per cent of gross income. (It is not clear where the Secretary got his utility figures —in 1957 gross income for all class A and B privately owned electric utilities was \$1.908 million while interest on long-term debt was \$523 million, or a ratio of 27 per cent; even in relation to revenues the percentage was 6.3 per cent. In the case of utility companies rising interest rates have been a definite factor in the amount of some rate increases—the "fair rate of return" has historically been higher when interest rates are high. Moreover, it is to be doubted whether utilities in recent vears have reduced their construction budgets to any great extent because of rising interest costs. The argument therefore seems more applicable to industrial than utility companies, especially as residential utility rates have declined for years and certainly have not contributed to inflation.)

HE principal reason for rising interest rates in the current fiscal year seems to be the federal government's need to finance almost a \$9 billion increase in the federal debt-the largest deficit in some years. Conversely, the best way to lower interest rates would be to have a government surplus-if part of the government debt were paid off this would supply larger funds to satisfy other borrowers. This is the best out of six possible ways, which Mr. Anderson lists as follows: (1) A government-sponsored recession, which nobody wants. (2) The Federal Reserve might be directed by Congress to buy new issues of government securities. (This would obviously be inflationary, as a

number of foreign countries have discovered.) (3) Congress might order the FRB to "peg" prices of government securities; this also has proved to be inflationary. (4) A break in the stock market might be induced in order to stimulate a switch to bonds; but such a policy would be irresponsible. (5) The federal debt might be reduced by earmarking funds for that purpose, but this would accomplish little or nothing if accompanied by a deficit. (6) A budget surplus is therefore the most efficient way of removing the pressure for higher interest rates, and it would also help protect the value of the dollar.

Nonrefundability of Bonds May Reduce Coupon Rates

ASEL R. COLBERT, chief of the accounts and finance department of the public service commission of Wisconsin, in a recent talk before the Midwest Association of Railroad and Utility Commissioners, discussed the efforts of lenders to make debt issues nonrefundable, at least for an initial period of years; or on the other hand to have the call price fixed high enough so as to make early refunding unlikely.

Mr. Colbert pointed out that both the SEC and the FPC are opposed, on general principles, to nonrefundability. He referred to a study by J. R. Pines, chief financial analyst of the SEC, which concluded that with "virtually equal results with respect to the number of bids on two groups (refundable and nonrefundable) and the degree of marketing success, the presence or absence of a freeze on refundability has no special significance, let alone a controlling influence, on the ability of a public utility to raise bond money."

FINANCIAL NEWS AND COMMENT

Mr. Colbert also refers to a study conducted by the Wharton School of Finance and Commerce covering corporate bond issues between 1945 and 1958, in which the conclusion was reached that "the presence or absence of the call privilege appears to have no significant effect on the interest rates."

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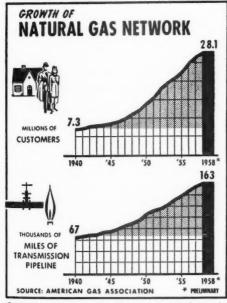
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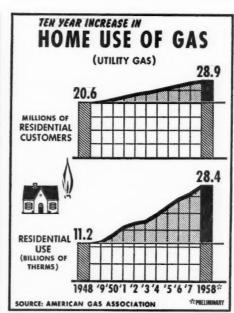
THESE are all interesting conclusions; but it is difficult for this writer to reconcile these statements with the experience of utility companies during the bad bond markets of 1957 and 1959. The number of bids and degree of marketing success would seem to have little to do with the matter if the coupon rate is adjusted to offset nonrefundability. The summer of 1957 witnessed very tight bond market conditions, due apparently to Federal Reserve policy at that time.

As a result of the FPC rule requiring refundability, utility companies had to "pay up" in June for having to use normal call provisions: Puget Sound Power & Light 1st 64s of 1987 were sold to yield 6 per cent; Michigan Consolidated Gas sold 1st 64s of 1982 to yield 6 per cent; and Michigan Wisconsin Pipe Line 1st 64s of 1977 to yield 6 per cent. The shorter maturities and the provision of sinking funds (which in the case of the Michigan Wisconsin issue would retire 97 per cent of the bonds before maturity) apparently did not offset the fact that the bonds were refundable. (Incidentally, the Puget Sound issue was called the following year, but the other two issues are still outstanding.)

Two of these issues were rated Baa and one A by Moody. The average yield of A-rated bonds on June 21, 1957, was 4.14



ONE million customers were added to the nation's fast-growing natural gas network during 1958 when transmission facilities were increased by 5,400 miles. Natural gas customers have more than doubled since 1949 when 12.5 million were served. Customers using all types of gas, including LP "bottled gas," now total 40 million.



THE gas utility industry has added an average of 830,000 new fresidential customers a year during the past decade for a total increase of 40 percent since 1948. Annual home use of gas has climbed to more than 28 billion therms as a result of steedily increasing demands for gas house-heating and other modern gas appliances.

per cent, and for Baa bonds 4.34 per cent, according to Moody's Service. While there is always a spread in yields between old and new issues, it seems obvious that the issuers of these bonds were caught in a "squeeze play."

ANOTHER instance occurred recently. In May, 1959, Detroit Edison arranged the sale of a \$40 million issue of general and refunding mortgage bonds due 1989 to a group of institutions, subject to approval by the Michigan commission; these Aa bonds carried a nonrefunding provision for seven years and presumably were thus enabled to obtain a 43 per cent coupon.

During the same month Idaho Power sold \$15 million 1st 5s of 1989 to the public at a slight premium to yield 4.95 per cent, and El Paso obtained the same yield, while West Penn Power sold \$14 million $5\frac{1}{8}$ s on a 5 per cent yield basis. As all these issues also had Aa ratings it seems fair to assume that Detroit Edison saved about one-quarter per cent by using its seven-year nonrefundable provision.

It has been currently reported that life insurance companies do not have much interest in buying new issues at this time where the nonrefundable provision is lacking. Other buyers are probably less "choosey." In any event, there seems to be a definite impression, shared by this observer, that the nonrefundable feature is unquestionably a bargaining point during "hard times" in the bond market, particularly with the life insurance companies.

New Census of Share Owners Stresses Value of Employee Stock Plans

I^N 1956 the New York Stock Exchange made a "Census of Share Owners,"

which was published in a 32-page bulletin. Now another census has been taken and a slightly larger bulletin published. Unfortunately, the census did not find what kind of shares were held other than to differentiate between preferred and common stocks.

As might have been expected, the new census showed a rapid gain in the number of American stockholders. Twelve million, four hundred and ninety thousand Americans now own shares in public corporations or nearly double the 1952 total and 45 per cent above 1956. One out of eight adults is now a share owner. This average person has an income of about \$7,000 a year and is about forty-nine years of age, although newer investors average only thirty-five. Four million housewives are share owners, the largest single group, and women in the aggregate outnumber men by a slightly larger margin (52.5 out of 100) than in 1956. Individuals who hold shares only in investment companies (including mutuals) are 1,235,000, which is four times the 1956 total.

The brochure points out the importance of employees' stock purchase plans, which point may be of interest to utility executives.

More than 2.5 million share owners, or one out of five, acquired their first shares through company plans. An even larger proportion of new share owners since 1956—27 per cent—first acquired stock through this method. An estimated 1,340,000 share owners are now investing regularly through employee stock purchase plans.

MOREOVER, the study indicates that share owners like to own the shares of the company they work for: 83 per cent of the share owners employed by public corporations (a total of 2,580,000)

FINANCIAL NEWS AND COMMENT

are stockholders in their own companies. Moreover, nine out of ten of all share owners believe it is a good thing for employees to have shares in their own companies, since this encourages greater employee incentive and interest in the company's activities.

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rs, rst en ers ed ed ed Sale of stock to employees is, of course, an established policy with a number of utilities.

California Public Pension Funds Rely 43 Per Cent On Utility Issues

Pension funds operated for state, county, city, district, and school employees in California have 43 per cent of their

assets invested in public utility bonds and debentures, a survey by Pacific Gas and Electric Company indicates. The funds have combined assets of almost \$2.4 billion; of the more than \$1 billion invested in public utilities, \$156 million is invested in utilities operating in California.

Membership in these funds includes about 544,000 active participants and 56,000 who are enjoying retirement benefits. The largest single group is the California State Employees' Retirement System with 203,000 members, of whom half are employees of city, county, and other local public agencies participating in the state system on a contractual basis.

PG&E undertook the survey as part of its continuing inquiry into the potential markets for its securities.

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RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Annual Rev. (Mill.)	RECENT FINA	6/25/59 Price About		Approx. Yield	Recent Share Earnings	% In-	Aver. Incr. In Sh. Earn. 1953-58	Price- Earns. Ratio	Div. Pay- out	Approx. Common Stock Equity
	Pipelines and Integrated S	ystems								
\$ 5 OS 205 A A C S S OS	AlaTenn. Nat, Gas American Nat, Gas Arkansas Louis. Gas Colo. Interstate Gas Colo. Interstate Gas Colombia Gas System Commonwealth Gas Commonwealth N. G. Consol, Gas Util. Consol, Nat, Gas E. Tenn, Nat, Gas E. Tenn, Nat, Gas El Paso Nat, Gas Equitable Gas Houston N. G. Kansas Nebr. Nat, Gas Lone Star Gas Miss, River Fuel Montana Dakota Util. Mountain Fuel Supply Natl, Fuel Gas Northern Nat, Gas Oklahoma Nat, Gas Panhandle East, P. L. Pennsylvania Gas Peoples G. L. & Coke Pioneer Nat, Gas Southern Nat, Gas Southern Nat, Gas	25 59 61 45 21 8 24 18 49 10 31 36 26 42 41 36 27 23 28 24 44 27 23 28 24 24 27 23 28 24 24 27 27 28 28 28 29 29 20 20 21 21 21 21 21 21 21 21 21 21 21 21 21	\$1.20(k 2.60(L 1.20 1.20 1.20 1.20 1.00 .90 2.10 .60 1.30 1.60 1.80(f) 1.80(f) 1.20 1.120 1.120 1.20 1.40 2.00 1.40 2.00 1.12)4.4 2.0 4.8 4.9 4.9 4.3 6.0 4.4 4.4 4.4 4.4 4.4 4.1 5.0 5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1 5.1	\$1.40 Ma 4.31 Ma 2.82 Ma 2.51 Ma 1.41 Ma .49 De 1.63 Ma 1.60 Ap 3.45 Ma 1.61 De 2.58 Ma 1.44 Ap 2.94 De 2.24 De 2.24 De 2.18 De 1.81 Ma 1.62 Ma 1.92 Ap 2.74 De 2.13 De 3.89 Ma 1.40 De 2.14 D	3% 4 50 NC 1 22 2 33 D4 D2 16 D23 15 NC 14 D9 30 D5 23 — D2 9 D1 D4 D9	14% 8 85 9 26 12 8 11 123 6 11 11 10 5 15 37 9 6 2 30 4 11 9 11 9 9 9 9 9 9 9 9 9 9 9 9 9	18.0 13.6 21.6 17.9 16.3 14.7 11.6 11.2 19.3 18.1 14.3 17.3 17.0 17.2 17.3 14.6 11.3 14.7 11.3 11.7 11.3 11.3 11.7 11.3 11.3 11	86% 43 500 43 507 1 61 66 61 67 77 57 66 44 86 65 66 66 56 167 100 80 87	40% 39 53 24 47 77 47 57 60 25 17 44 18 36 43 48 29 51 56 35 34 40 59 41 43 43 43 43 43 43 43 43 43 44 43 43 44 44
402 S 266 O	Tenn. Gas Trans Texas East, Trans	31 29	1.40 1.40	4.5 4.8	1.61Ma 2.05Ma	D8 D23	16 16	19.3 14.1	68	21
										1050

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JULY 16, 1959

Anna Re (Mi	7.	(Continued)	6/25/59 Price About	Divi- dend Rate	Approx.	Recent Share Earnings	% In-	Aver. Incr. In Sh. Earn. 1953-58	Price- Earns. Ratio	Div. Pay-	Approx. Common Stock Equity
104 115 318	SOS	Texas Gas Trans Transcont. Gas P. L United Gas Corp	21	1.20(b 1.00(b 1.50		2.06Ma 1.46Ma 2.39Ma	9 2 D5	3 17 4	14.1 14.4 14.2	58 68 63	33 23 42
		Averages			4.5%		3%	12%	16.4	67%	
		Retail Distributors									
32 53 3 7 6 6 79 41 13 6 6 8 8 15 10 18 285 10 4 6 4 4 4 4 4 4 10 10 10 10 10 10 10 10 10 10 10 10 10	S00A0S00000000000000000000000000000000	Alabama Gas Atlanta Gas Light Berkshire Gas Bridgeport Gas Brockton-Taunton Gas Brockton-Taunton Gas Central Elec. & Gas Cent. Indiana Gas Chattanooga Gas Gas Service Hartford Gas Haverhill Gas Indiana G, & Water Laclede Gas Mich. Gas Util. Minneapolis Gas Mobile Gas Service New Haven Gas Nortle Gas Nortle Gas North Penn Gas Northwest Nat, Gas Portland Gas Lt. Providence Gas Rio Grande Valley Gas So, Jersey Gas United Gas Impr. Wash, Gas Light Wash, Gas Light Wash, Nat, Gas United Gas Impr. Wash, Gas Light Wash, Nat, Gas	31 38 21 32 18 50 21 15 6 31 46 28 25 21 24 30 26 38 46 30 11 17 49 34 17 11 42 53 48 18 18 18 18 18 18 18 18 18 1	\$1.60 1.80 1.00 1.60 1.95 2.20 1.00 1.80 35 1.52 2.00 1.40 1.00(b) 90 1.05 1.50 1.20 1.10 1.90 1.80 1.60 2.40 1.00 2.40 2.24 (g) 60(i)	4.3 4.4 5.0 4.6 4.2 5.0 3.3 5.5 4.2 4.9 4.4 5.1 5.3 3.6 4.5 4.7	\$2.74Ap 2.55Ap 1.42F 2.68Ma 1.30De 3.36Ma 1.69Ma .84Ma .38F 2.81Ma 2.31De 2.19My 1.53Ap 1.24Ma 1.48Ma 2.04Ma 2.04Ma 2.23Ma 2.23Ma 2.23Ma 2.23Ma 2.23Ma 2.23Ma 2.23Ma 2.23Ma 2.31De *1.12Ma 2.80Ma 2.31De *1.25Ma 3.37Ma 4.22Ma 4.22Ma 1.03Ma 4.22Ma 1.03Ma 4.22Ma 4.22Ma 4.22Ma 4.22Ma 4.22Se 1.25 De 1.25 De	D10% D21 18 40 10 5 3 D24 D31 14 21 15 D1 D10 8 5 1 D30 30 4 18 4 6 5 D23 128 20 40 27 15 21 38 91 42	13% 11 31(x) 8 28 10 11 17 17(x) 13 — 14 11 5 4 6 8 7 13 — 12 — 10 21 31 5 11 6 18 5 12 5 3	11.9 13.8 14.9 12.4 17.9	58% 71760 73659 92554 6457 77174 6466 74666 74666 7471 753 8667 771 7448	42% 34 39 46 46 44 17 57 43 36 51 53 45 46 37 67 34 54 60 36 22 24 27 55 37 40 41
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		Averages			4.2%		14%	11%	15.5	0/%	
				9	2)						

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Annua Rev. (Mill.)			6/25/59 Price About	Divi- dend Rate	Approx.	Recent Share Earnings	% In-	Aver. Incr. In Sh. Earn. 1953-58	Price- Earns. Ratio	Div. Pay-	Approx. Common Stock Eq: ity
\$6,771 329 47 255 354 937 119	S A O A A S O	Amer. T. & T. (Cons.) Bell Tel. of Canada Cin. & Sub. Bell Tel. Mountain Sts. T. & T. New Eng. T. & T. Pacific T. & T. So. New Eng. Tel.	44 91 162 177 178	\$3.30 2.00 4.50 6.60 8.00 7.00 2.20	4.2% 4.5 4.9 4.1 4.5 3.9 5.1	*\$4.77F 2.14De 5.15De 8.09De 10.23Ma 7.89De 2.60De	10% 7 5 D3 25 4 37	4% - 4 7 1 8	*16.6 20.6 17.7 20.0 17.3 22.6 16.5	69% 93 88 82 78 89 77	64% 64 76 76 62 61
		Averages Independents			4.5%		12%	3%	18.8	82%	
6 45	0	Anglo-Canadian Tel British Col, Tel		\$1.20 2.00	3.2% 4.4	\$3.09Ma 1.64Ma	D4% D32	32%	12.0 27.4	39% 122	52% 28
JULY	16,	1959			150						

FINANCIAL NEWS AND COMMENT

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Ann Re (Mi	ual v.	(Continued)	6/25/59 Price	Divi- dend	Approx Yield	Recent Share	% In-	Aver. Incr. In Sh. Earn.	Price- Earns.	Pay-	Approx. Common Stock
4 22 20 5 5 552 20 8 23 11 38 16 255	000000000000000000000000000000000000000	Calif, Inter. Tel. Calif, Water & Tel. Central Tel, Commonwealth Tel. Florida Tel. General Tel. & Elec. Hawaiian Telephone Inter-Mountain Tel. Rochester Tel. Southwestern St. Tel. United Utilities West Coast Tel. Western Union Tel.		.70 1.20 1.00(b) .90 1.00 2.00 1.00 .80 1.00 1.20 1.25 1.00 1.20	4.7 5.0	96Ma 1.79De 1.88Ma 1.35De 1.00De 3.05Ma **1.28My 91De 1.43Ma 1.57De 1.64De 1.38Ma 1.89De	23 36 — D6 D7 2 12 D3 16 D5 6 2 D7	1953-58 NC 2 5 20 4 NC 4 - 4 - 3 -	15.6 13.4 12.8 14.1 26.0 21.3 17.1 17.6 16.8 15.3 17.1 16.2 19.6	63 67 53 67 100 66 78 88 70 76 76 72 63	24 37 33 35 42 34 43 54 33 37 36 32 85
		Averages			4.3%		3%	6%	17.5	73%	
		Transit Companies									
20 12 65 305 25 13 17 6 21 14 19	OOSSSOAOOSO	Baltimore Transit Cincinnati Transit Fifth Ave. Coach Greyhound Corp. Nat. City Lines Niagara Frontier Trans. Pittsburgh Rys. Rochester Transit St. Louis P. S. Twin City R. T. United Transit	9 6 16 23 28 9 13 6 11 9 6	1.00(o) 2.00 .60 .25 .40 1.00 .60	5.0% 4.3 7.1 6.7 2.0 6.7 9.1 9.2	\$.58De .31De .02De 1.23De 1.69De .10De .12Ma .86De .68De .24De .75De	D43% D40 D99 1 D38 D87 34 4 D70 D4	11%	15.5 19.4 18.7 16.6 — 7.0 16.2 — 8.7	97% 81 118 — 47 147 80	48% 54 75 50 94 67 90 100 97 65 55
		Averages		_	6.3%		D34%	_	14.6	95%	
42	0	Water Companies Holding Companies			4.004	44 403 6				## ad	40.04
43	S	American Water Works .	14	\$.60	4.3%	\$1.10Ma	16%	_	12.7	55%	19%
5 16 4 11 9 6 5 2 9 2 5 11 5 4	00000000000000	Operating Companies Bridgeport Hydraulic Calif, Water Service Elizabethtown Water Hackensack Water Indianapolis Water Jamaica Water New Haven Water Ohio Water Service Phila, & Sub. Water Plainfield Un. Water San Jose Water Scranton-Springbrook South. Calif. Water W. Va, Water Service	34 24 50 46 24 43 66 28 50 63 31 22 20 22	1.20(j) 2.00 2.00 1.00 2.20 3.40 1.50(b) .50(b) 3.00 1.30(f)	1.0 4.8 4.2 4.5 4.0	\$1.75De 1.68My 3.78De 3.29De 1.22De 2.97Ma 3.32De 1.60Ma 2.52Ap 4.31Ma 2.21My 1.68Ma 1.09Ma 1.41Ma	D15% 3 D3 D5 D4 D5 9 D32 D16 D3 29 — D7 D20	2% 1 14 6 1 6 — 3 15 4 7	19.4 14.3 13.2 14.0 19.7 14.5 20.0 17.5 19.8 14.6 14.0 13.1 18.3 15.6	97% 71 53 61 82 74 102 94 20 70 59 73 48	53% 36 59 35 36 27 61 31 27 64 41 25 33 18
		Averages			4.3%		D5%	5%	16.3	69%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; Oc—October; N—November; De—December. NC—Not comparable. NA—Not available. D—Decrease. *On average shares. (a) Adjust ed to eliminate 13 cents per share of nonrecurring tax savings. (b) Also stock dividend in 1958. (d) Also 1 per cent stock dividend quarterly. (e) Also 10 per cent stock dividend May 19, 1958. (f) Includes extra s. (g) Five per cent stock dividend April 10, 1959. (i) Also 5 per cent stock dividend December 29, 1958. (j) Also 5 per cent stock dividend March 19, 1959. (k) Also 20 per cent stock dividend March 9, 1959. (L) Also 10 per cent stock dividend June 10, 1959. (n) Excludes profit realized on sale of Los Angeles Tran sit \$3.81 per share. (o) Also 5 per cent stock dividend June 30, 1959. **On combined common and common B stocks. (x) 1952-57.



What Others Think

A Transit Rate Solution

THE transit industry is enshrouded in an atmosphere of gloom and fear trying to find a solution to its financial troubles by further rate increases. The 25-cent fare is almost here in many cities and has already arrived in a few. But underneath the belligerent assertions of industry leaders that the privately owned transit companies are entitled to a fare that will produce a reasonable profit, there is a reluctance to go for the straight 25-cent fare and a fear that such a fare may not produce any more revenue than the lower rate structure it would replace.

To those familiar with the reaction of transit passengers to rate increases, a reaction unique among utility customers, the fears of transit managements are quite understandable. They know that if there are 1,000 passengers today paying 20 cents each, there will not be 1,000 passengers the morning after a 25-cent fare is inaugurated. One familiar formula, based on experience with more modest advances in rates, indicates that about 920 of each 1,000 passengers would be in sight after the fare went to 25 cents. Of course, these 920 remaining passengers, paying 25 cents each, would produce more revenue dollars than the 1,000 who had been paying 20

On the other hand, it takes no Einstein to see that if the 1,000 20-cent pas-JULY 16, 1959 sengers shrink to 800 25-cent passengers, there would not be a penny of additional revenue.

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It is this fear that haunts transit managements as they face up to the once fantastic 25-cent bus fare. To sociologists concerned with the other complex phases of city living, the real horror is the proven fact that each fare increase results in decreasing the usefulness of the transit system to the community, a shift to the use of automobiles, then more street congestion, less useful streets, all of which makes the outlying shopping center more attractive and the mid-city retail district less attractive and less productive of tax revenue.

In addition to the uniqueness of the transit industry's loss of a substantial number of its passengers each time that rates are increased, it has another familiar distinction in comparison with the rates of other utilities. Only the transit industry lacks a stand-by or readiness-to-serve charge designed to produce revenue from that customer who has the service continuously available to him but who for reasons of his own does not actually buy any measureable units of the service during a so-called billing period.

To be specific, in a typical city, the group of people served by a residen-

tial meter pays \$1 per month for electric service whether they use one kilowatthour or ten kilowatt-hours or none whatsoever, and they pay \$1.50 per month for gas service for the first 300 cubic feet, even though none is used. Similarly, any group served by a residential telephone pays a stipulated monthly subscription price which is unchanging regardless of the number of outgoing local calls up to a stated number. In many areas, telephone service can be suspended for a temporary period at the customer's request but the customer must still pay 50 cents per month for the privilege of having the service made available on short notice when he asks for it.

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If the transit system were to receive as part of its rate structure a similar small monthly payment from each residential or family group to whom its service is available, the way would be opened for this beleaguered industry to increase rates and revenue without the simultaneous shifting of a large group of its passengers from buses to less desirable means of transportation.

This kind of a rate structure would also be more equitable because it would assess a share of the cost of the transit service upon the person who uses it only when his automobile is broken down or snowed in or otherwise unusable. Now such a person pays the transit system perhaps 40 cents on one day each year for a service that is kept available to him every day in the year.

THE writer was recently called upon to translate these somewhat academic considerations into a practical plan of action on behalf of a transit system that serves a large portion of the population of an industrial state. In that state the transit companies as well as all the other utilities are regulated and their rates are estab-

lished by a state regulatory agency of the usual pattern. The transit company was motivated largely by the spirit that promotes pure research to find possible solutions to problems of the future. The recommended solution in this particular case turned out to be rather simple, even though the answer is perhaps a year or two ahead of present thinking in the transit industry.

However, it is by no means too early to initiate a discussion of this possible method of solving the transit rate prob-

Our recommendation took the form of drafting a proposed and entirely novel tariff to be submitted to the state agency that sets all utility rates. This tariff did not propose that a 25-cent fare be instituted in lieu of the existing 20-cent fare. Instead, it did propose the filing of a tariff in the form shown on page 154.

It should be emphasized that this proposal for financial relief is not a subsidization of a private transit company with public funds and is not socialistic in any sense. It merely puts the privately owned transit company in the same position as the electric, gas, and telephone utilities with respect to a minimum monthly charge.

As an illustration, in a city with a 20-cent fare, the monthly cost to a regular employed rider is \$8.40, and to a house-hold which uses the transit service only in a once-a-month emergency the cost is 40 cents. A 25-cent fare would increase these costs from \$8.40 to \$10.50 and from 40 cents to 50 cents, respectively. The proposal recommended herein would increase the present costs to \$8.70 and 70 cents, respectively. In the specific case studied, the increase in dollars of revenue would have been approximately the same from either type of rate increase.

The principle behind this plan is not entirely novel. It has been in effect in a thinly disguised form in New Orleans for many years and is largely responsible for the 7-cent transit fare which has prevailed there since 1922. And there is not the slightest doubt that transit patronage in New Orleans has held up better during the postwar years than in any other American city.

A GENERAL filing of transit tariffs in the form proposed herein with the agencies controlling both transit and electric rates would stimulate prompt public consideration and perhaps result in con-

structive action towards solving one of the most serious of the postwar problems of our large cities. Of course, the outstanding immediate advantage of this plan is that it requires no new legislation in those states where all utility rates are controlled by a state commission.

Such commissions are more fully aware of the need for a transit rate solution than any other group in the nation and many of them are in a mood to experiment with a form of rate relief that does not lead them up a straight path to eventual disappearance of public transit service.

-EDWARD A. ROBERTS

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"BLANK TRANSIT CO. STATE P.S.C. TARIFF NO. 47"

> "A READINESS-TO-SERVE CHARGE OF 30 CENTS PER MONTH FOR EACH FAMILY UNIT RESIDING IN THE TERRITORY SERVED BY THE LINES OPERATED BY BLANK TRANSIT COMPANY"

"For the purposes of charging and collecting this readiness-to-serve charge, a 'family unit residing in the territory served by the lines operated by Blank Transit Company' is defined as each group of persons served with electric service furnished by Edison Electric Company by means of a residential or rural electric meter located within the limits of any city or town traversed by lines operated by Blank Transit Company. Such readiness-to-serve charge shall be made by adding 30 cents to the minimum monthly electric residential rates in effect under the tariffs approved by the state public service commission for electric service in each such city and town. Such readinessto-serve charge shall be collected by Edison Electric Company simultaneously with the collection and payment of the amounts due such company for furnishing electric service to such residential and rural meters under the terms of tariffs for such electric service which have been approved by the state public service commission. The amounts collected by Edison Electric Company as a readiness-to-serve charge for service of Blank Transit Company shall be transmitted monthly to Blank Transit Company by Edison Electric Company."

WHAT OTHERS THINK

Gas Industry Is Sanguine about Its Future

clared J. Theodore Wolfe, president of the American Gas Association and president of the Baltimore Gas & Electric Company, in an address to the New York Society of Security Analysts in June. He pointed out that in terms of total assets, the gas industry is the fifth largest in the United States, that it serves 32 million customers, that in 1958 its revenues amounted to \$4.6 billion.

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Despite its complexity, huge size, and many problems, the gas industry is growing rapidly, Wolfe said. In the past ten years, the number of customers served by it has increased by nearly 40 per cent and sales have more than doubled while revenues have tripled. While many observers during the lifetime of the industry have predicted the end of the gas business, these prophets have been proved wrong.

The AGA head said that the gas industry plans to spend \$34 to \$36 billion in new construction in the next twelve years and that gross plant investment of the distributing and pipeline companies will increase from \$18.4 billion to \$49.3 billion. Revenues are expected to rise \$10.7 billion in that period. He said these prognostications are predicated on certain assumptions which are:

1. The population of the U. S. will soar tremendously.

2. U. S. standard of living will continue to rise.

3. Gas will remain popular as an energy fuel.

4. Gas will be available in adequate supply at competitive prices.

Wolfe declared that the first two assumptions could reasonably be ex-

pected to prove correct. Their net result would be more and more use of the various forms of energy. As to the third assumption, he said:

. . . Gas will more than hold its own in the popularity contest among various sources of inanimate energy. It is fairly well known that gas has tremendously increased its share of the total energy supply in this country during the postwar period—from something like 12 per cent immediately before World War II to 28 per cent last year. "But," I seem to hear you saying, "much of that tremendous increase came from the extension of natural gas pipelines into new geographic markets, thus making possible large volume sales of gas for industrial and space-heating purposes." That is a correct observation. Since World War II natural gas has swept the country, to such an extent that there is very little of the country left for it to sweep. Many of the ripe prospects who were awaiting the advent of natural gas are now revenue-producing customers.

Gas Sales Will Rise, However

Wolfe observed that the gas industry's growth in the last decade was mostly represented by intensive rather than extensive growth. "The absolute growth in demand for gas in established natural gas areas such as the Appalachian region and the Southwest has been substantially greater than growth in new markets. New markets take time to develop their maximum, and major expansion of demand still lies ahead for those areas which received natural gas initially during the last ten years."

One cannot expect a rate of growth in the future to match the rate of the past ten years, Wolfe stated. But he predicted the gas industry would double its sales in the next twelve years, propelled by intensive efforts of those in the business. And the industry will achieve this goal by capitalizing not only on competitive cost of gas, but on its convenience, simplicity, and reliability.

Also, a research program will help the industry by determining what the public wants in appliances. Already, research and other efforts of appliance manufacturers, Wolfe reported, have brought into being the following: the smokeless, odorless incinerator; automatic water heaters which produce twice as much hot water as an appliance of the same size at less cost than any competitive appliance; new gas refrigerator with convenience plus low operating cost; a new gas furnace, still in the research stage, with its own thermoelectric gas-fueled generator which will operate the controls and warm air blower or circulating water pump; and gas-fired air-conditioning units.

Wolfe said he is most optimistic about the potential of gas air conditioning. Vast quantities of gas are available in the hot months to gas companies at low prices which can be sold for cooling purposes "without adding a single dollar to the gas utility's investment in distribution facilities."

Advertising and Promotion

MORE than \$6 million are being spent by the American Gas Association, Wolfe related, at the national level for a program of promotion and advertising to increase the preference for and use of gas. One of the most successful uses of this money is Playhouse 90, which has captured a tremendous TV audience. Also,

gas appliance manufacturers are spending \$10 million a year and the gas utilities are spending at the local level at a rate that should give the industry a total sales and promotional effort of \$100 million a year.

As to the supply of gas, Wolfe made the following statement:

. . . let's take a look now at the supply of natural gas. . . . The committee [on gas reserves] advises that the proven reserves of natural gas in this country at the end of 1958 were 254 trillion cubic feet, and the production during 1958 was 11.5 trillion cubic feet. . . . The figure of 254 trillion cubic feet by no means represents our total gas supply. It is only the working inventory which we have "on the shelf." To point this up, let me remind you that in 1945 we had proven reserves of less than 148 trillion cubic feet, since then we have produced 109 trillion cubic feet; but at the end of 1958 we had proven reserves of 254 trillion cubic feet. Each year. notwithstanding increasing volumes of production, we have added to our proven reserves; we have increased the amount of inventory "on the shelf."

Commenting further on gas reserves, Wolfe said that the U. S. Bureau of Mines estimates the amount to be 1,000 trillion cubic feet. Other experts set the reserves at 1,200 to 1,700 trillion cubic feet.

These estimates are only for the United States but not including Alaska, which is thought to have large undiscovered quantities of gas.

Wolfe said that in view of these facts it follows there will be plenty of gas to sell, but he warned that proper incentive must be given to motivate those who would invest their money and time to discover new gas reserves. Wolfe stated:

WHAT OTHERS THINK

Now I have no pat solution to this question of how to regulate field prices so that producers will have the economic incentive to find and deliver the gas we need and still keep its price competitive. But I don't think one has to be too much of an optimist to assume that a solution will be found. . . . Producers, pipeliners, and distributors of gas are all beginning to realize that we have to work out this problem which is of fundamental concern to the entire gas industry. Under the leadership of AGA we have begun this year a series of informal conferences attended by representatives of all segments of the gas industry. In these conferences, we are seeking to develop a better understanding of each other's problems. Out of that understanding may come an answer to the question of how to get the gas we need at a competitive price.

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Wolfe said he was ready to concede that the average field price of natural gas is bound to increase from its present level, since the present average price of 12 to 13 cents per Mcf is heavily affected by some very low contract prices established when gas was primarily a by-product. However, he held out hope that perhaps recent prices in new contracts may represent a level at which exploratory and developmental activities can be supported for some time to

come. New techniques and new materials used in exploring for and producing gas may help to offset the otherwise rising trend of costs as wells go deeper or farther offshore. Wolfe predicted that the industry would have the gas it needs at prices which will sustain its anticipated growth.

What about Synthetic Gas?

WOLFE stated that while research is being conducted ing conducted on the development of synthetic gases as a possible supplement to the natural gas supply, it is essentially a long-term project. He believed it would be a long time before it would prove necessary to make use of such processes. Initial research on oil shale and tar sands has shown that these abundantly available energy sources can be gasified at substantially lower cost and with fewer technical problems than coal, the AGA president informed the security analyst group. He said the known possibility of producing synthetic gases, however, may serve as an important factor in controlling the price of natural gas.

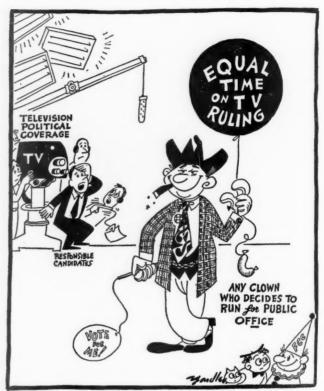
Adding all the facts up, Wolfe said that the transmission and distribution of gas through a system of pipe are still just about the most efficient means of getting usable energy into the customer's home. He said it was no wonder he was so optimistic about the future of the industry.

Is Politics a "Must" for Businessmen Today?

No businessman, big or small, can afford to ignore politics any more, since almost everything government does has an impact on business. This is one of the key thoughts from a recently published book, entitled "The Businessman's Guide to Practical Politics," by J. J. Wuerthner, Jr. He points out that government is politics and politics is govern-

ment—you cannot have one without the other. Says the author:

The first broad trend underlying the new challenge to business evolves from the basic fact that the days when business could be judged solely by the black or red ink on the profit-and-loss ledger are behind us because nowadays the op-



Courtesy, The Sun (Baltimore)

"PRESENTED AS A PUBLIC SERVICE BY THE FCC"

erating statement is increasingly dependent on government decisions and political actions. There is practically no major issue today at the national or state level which doesn't have a direct bearing on the operation of business and industry. The same holds true, in many instances, at the community level.

Wuerthner points out that it is no longer enough merely to belong to a trade association, have a representative in Washington, write a letter now and then to one's Congressman. All these things are good, he admits, but today a businessman should be active at the grass-roots level where the lawmakers are elected.

There is plenty of down-to-earth factual material on how to get into politics, what to expect, how to organize for action, your legal rights, etc., that should open the eyes of many a businessman to the opportunities that exist.

The author explains the importance of political contributions, fund raising, doorbell ringing, getting out the vote. To show some of the things that can be accomplished, he cites outstanding examples of how well-organized, efficient political groups have gotten their candidates

WHAT OTHERS THINK

elected even in the face of firmly entrenched opposition.

In the past, he says, it has been "the tendency of business and industry, apparently, to assume that someone else will take up the burden of decisive action. There is no 'someone else.' The task is one to be accomplished by businessmen and their like-thinking associates in all the communities of the nation."

In order to emphasize the far-reaching importance of politics, Wuerthner quotes Raymond Moley, an economics writer, who said:

The battleground is where lawmakers, not laws, are made. Politics is not something to avoid or abolish or destroy. It is a condition like the atmosphere we breathe. It is something to live with, to influence if we wish and to control if we can. We must master its ways or we shall be mastered by those who do.

The fact that America is faced today with a form of Socialism, Wuerthner asserts, is attributable to the lack of positive and dynamic political action on the part of businessmen. You must engage in politics if you would influence government, he emphasizes, stating:

By inaction in politics, by refusing to seize the responsibilities which go hand in hand with our traditional freedoms, the business community could well neglect its biggest opportunity and thus surrender the very foundations of the American dream, which has become a reality for millions. . . . Businessmen have attained marvelous achievements in the twentieth century—miracles of industrial expansion, new technology, and wise use of all the components that make up a successful business. But in

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politics and public affairs, they have been babes in the woods.

Some excellent guides to political action are given throughout the book. An excellent one deals with the field of communication by business in relation to politics.

Wuerthner presents five pointers which were prepared by Claude Robinson, president of Opinion Research Corporation. They are:

A. In your public statements and in your policy considerations, go out for the good life, declare your devotion to the public goals, make it perfectly clear to the public that the thing you seek is the public good.

B. Never discuss means until you have defined the ends.

C. Never criticize the other fellow's means until you have declared your position with respect to his ends.

D. Talk more about the things you are for rather than the things you are against.

E. In criticizing the other fellow's program, define the end first, then point out that his path will not lead to the desired goal, but that yours will.

According to the author, it is a waste of a company's assets to spend money after political decisions or legislative actions have taken place that adversely affect the operation of one's organization. To remain politically impotent is both dangerous and expensive, he says. There is a direct and inescapable relationship between government-politics-legislation and the economic institutions of business in our nation, Wuerthner maintains. He states as follows:

Because the public affairs area is acknowledged to be an increasingly in-

herent part of the responsibilities of management to all those dependent on the continuing success of business, the job cannot be separated from business operations. It cannot be given to people outside the corporate framework. Today's business manager can't look the other way and pretend that government and political affairs don't affect him. Practically no operation in business today is undertaken without an appraisal of the impact of federal laws and regulations.

MONETARY contributions and personal labors are mandatory for successful political action, the author declares, but there also is a need today on the part of management to seek out approaching trends in government and political fields, and then devise programs in which the corporation and its personnel can participate

actively in helping to "mold factors of such situations through economic, ideological, political, and common sense communication and action."

This political guide is both provocative and informative. It should give the executive who reads it an entirely new conception of politics and political action as it relates to the successful conduct of his business.

THE BUSINESSMAN'S GUIDE TO PRACTICAL POLITICS by J. J. Wuerthner, Jr., published by Henry Regnery Company, Chicago, Illinois, 1959, 235 pages. Price, \$3.75.

Editor's Note: The author, J. J. Wuerthner, Jr., is manager of public affairs at General Electric's Electronic Park in Syracuse, New York. He has a background in public relations and political campaigns in Montana, New York, Pennsylvania, Georgia, and Rhode Island, in addition to the national political campaign of 1956. He developed a public affairs—register and vote—program for the Syracuse operations of General Electric that received the only award in the nation given to a corporation in 1957 by the American Heritage Foundation.

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Local Pride in Power Installation

THE May 21st issue of *The Spectator*, published at Somerset, Massachusetts, carried an editorial entitled "The Booming Voice of Progress."

The editorial was prompted by the addition of the sixth major power unit to the Montaup Electric Company's facilities. What makes this event unique is the high esteem with which "the Montaup" is held by the residents of the Somerset area. The addition of the new power facility raises the company's potential power output to 335,000 kilowatts.

Since 1924 "the Montaup" has been benefiting the community of Somerset. The editorial states that "the Montaup plant has brought Somerset an unsurpassed prosperity in taxable property and well-paid employment."

The Montaup Electric Company generates power for three companies: Fall

River Electric Light Company, Fall River, Massachusetts; Brockton Edison Company, Brockton, Massachusetts; and Blackstone Valley Gas & Electric Company, Pawtucket-Woonsocket, Rhode Island.

The editorial lauds the financial stability that the power company has brought to the Somerset area and it notes the community concern which the employees of "the Montaup" feel for Somerset. It states:

This atmosphere of stability has resulted as much from the quiet and cooperative attitude of the Montaup Company as from its efficiency. The plant itself, located neatly on the shore of the Taunton river, is an industrial asset of which the town is proud.

Its management, engineers, skilled

WHAT OTHERS THINK

technical staff have become citizens contributing to the town's social and civic welfare. In no way has Somerset been more fortunate in having the Montaup here than in their addition to the community.

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It is always gratifying to see a power company which enjoys the friendly confidence of the community—a company which is a substantial asset to the area in which it is located. This surely speaks

strongly in favor of public utility companies which, now and again, experience objections from communities when they attempt to establish new power-generating stations.

The Montaup Company has been growing for the past thirty-six years. It seems reasonable to assume that this growth will continue and that community relations will remain on the same high level which the company and the community have enjoyed for more than a quarter-century.

The Dynamics of Savings

THE May-June issue of Business in Brief (issued by the economic research department of The Chase Manhattan Bank) contains an article entitled "The Dynamics of Savings."

The general growth and expansion of our economy are noted by this article. Businesses are increasing their capital outlays, home building has increased. The ability to carry our commitments in the field of world leadership and defense, plus our commitment to increase the living standards here at home, depend, to a great extent, on a high level of productive investment.

In recent months there has been some slowing down of growth in savings institutions—consumer debt is also rising. This article investigates in brief form the savings trends and the possibility that recent indications may reflect a reduced willingness to save.

Savings (that portion of the nation's output that is not currently consumed) flow through three main channels: (1) Personal savings—in 1958 this category put away \$21 billion, about the same amount as in the two previous years. (2) Corporate savings—in the form of retained earnings. In 1958 this figure fell to about \$5.5 billion, the lowest figure since

1946. (3) Capital consumption allowances or the deductions from income which allow for depreciation of plant, equipment, and housing. In 1958 these allowances rose to a record high of \$39.6 billion.

The combined total of these three categories amounted to \$66 billion. However, federal, state, and local governments by running in a combined deficit absorbed over 15 per cent of these savings.

The position of the federal government in fiscal policy is summed up by the following:

The most volatile element in the savings picture is the federal government. Since World War II, there have typically been large deficits in recession years and surpluses in years of high prosperity. These deficits and surpluses have alternately absorbed private savings and released additional funds for private investment.

This policy is looked upon as one of the "built-in stabilizers" in the economy. In addition, when recessions occur workers receive unemployment compensation at the same time that income taxes decline.

During the same recession peri-

ods Congress has increased spending programs or cut tax rates.

Business expansion continues at a rapid rate. Federal spending appears to have leveled off and if tight control is held on spending programs the budget may balance in the next fiscal year. Even if there were no advance in private savings an additional \$8 to \$9 billion more would be available to support private investments.

Personal savings have grown in line with the economy in spite of short-run fluctuations. Higher rates have attracted individuals and record amounts were set aside in savings and loan shares in 1955 to 1957. In 1958, when recession worries put a premium on liquid savings, this type of savings plan shot up even higher. Personal security holdings rose steadily through 1957 but in 1958, because of market uncertainties, buying slowed to a standstill.

Reduced availability of mortgage funds in the period from 1955 to 1957 slowed the rise of mortgage debts. Regarding the trends in personal savings, the article notes:

These sharp shifts in the past pattern of personal savings suggest that rising debt totals and the slowing in the growth of savings deposits in recent months must be interpreted with care. Preliminary data indicate, in fact, that aggregate personal savings increased in the first quarter. Apparently, individuals are now choosing to place more of their savings in tangible assets—particularly homes—or directly in the securities market.

Corporate savings have not grown consistently during the postwar period. From 1955 through 1958 retained earnings were only 1.9 per cent of the

gross national product—after adjusting for the valuation of inventories. Rising depreciation allowances are aiding the swell of savings. With the increase of capital stock these allowances have been increased about \$2 billion a year since 1946. However, it must be remembered that provision for "wear and tear" cannot guarantee replacement of existing capital stock during a period of rising prices.

Total savings for any past period must equal total new investment. The function of the financial system is to insure that the surplus funds of some group are available to finance the investment needs of others.

Regarding this interdependence the article states:

... The predominant flow is from individuals to businesses, either through financial institutions or directly. At the same time, there are many crisscrossing flows between individuals, businesses, and governments. Disturbances in the market mechanism, by inhibiting these flows of funds, could cause a contraction in both savings and investment.

In conclusion it is stated that the economy must voluntarily save enough to match what it plans to invest. Inflation is not the acceptable means for increasing investment nor is a tight money policy or other measures directed at cutting back investments. None of these schemes are fully satisfactory in solving the problem of a shortage of savings.

There is no effective substitute for larger voluntary savings combined with curbs on nonessential government spending. The article does not view the current savings trends with gloom, but it is noted that the potential need for savings is huge.

WHAT OTHERS THINK

Notes on Recent Publications

Atomic Industry Directory of Products (1959). The association of the nuclear industry, the Atomic Industrial Forum, has just published the 1959 Atomic Industry Directory of Products, Equipment, and Services, which should be of interest to electric utilities in or considering entrance into the atomic energy field.

Of special interest to the electrical and electronic fields are such classifications as: high energy accelerators, radioactivity gauges, health physics equipment, laboratory instruments, nuclear reactors, control

equipment, and simulators.

More than 200 industrial organizations in the nuclear field are given product and service profiles in the 132-page directory, providing a wealth of data. There are 40 major classifications for products, equipment, and services, plus 130 subcate-

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Organizations described include manufacturers, fabricators, processors, architect-engineering and construction organizations, consultants, and suppliers of technical services. For additional information or to obtain a copy, write Atomic Industrial Forum, 3 East 54th street, New York 22, New York. Attention, Department E. Price \$2.50.

ELECTRONIC SPECIFYING & PURCHASING—1959, Electronic Periodicals, Inc., Cleveland, Ohio, price \$15, is a comprehensive cataloguing of the American electronics industry. The guide contains listings of over 4,500 manufacturers of electronic components and equipment. It lists the names of these companies, sales managers, data on the products manufactured, and the method used in distribution.

An entire section is devoted to a geographical listing of every recognized wholesale distributor of electronics equipment. Alphabetical listings of nearly 7,000 trade names are included as well as a purchasing index which contains manufacturers indexed under the equipment that each produces.

The publisher states that with this 700-page hard-bound book, plus your telephone, you will be provided with instant contact with all electronic supply sources, local and national. This publication should be of great value to any person in the public utility field who has frequent or occasional contact with the electronics industry. Special pricing arrangements are made for purchase of more than six volumes.

T is not the federal government that makes prosperity in this country. After all, we are talking within the reasonable future of a GNP (gross national product) of \$500 billion. It is quite clear that the decisions of 175 million people and the way they make those decisions based upon their own needs is far more important than what the federal government does.

"The federal government needs to lead, to point the way, to do the things . . . that people cannot do for themselves, such as providing for the national security . . . But when it comes to advancing and expanding our economy, that is by and large the business of America.

"Our federal money will never be spent so intelligently and in so useful a fashion for the economy as will the expenditures that would be made by the private citizen, the taxpayer, if he hadn't had so much of it funneled off into the federal government."

—DWIGHT D. EISENHOWER, President of the United States.



The March of Events

Atomic Power 10-year Plan

THE Atomic Energy Commission is mapping a 10-year plan for the development of civilian atomic power which it will submit to Congress for approval. The basic idea is to analyze from technological and economic standpoints the potentials of eight different types of atomic power reactors. They are boiling water, pressurized water, liquid metal-cooled, natural uranium and heavy water combinations, fast breeders, thermal breeders, gas-cooled, and organic-cooled.

Some nuclear companies can well be hurt by such a plan, inasmuch as many companies have built their atomic futures around only one or two reactor types.

There are some industrial leaders who are dubious about the wisdom of this longrange approach. One is Dr. Chauncey Starr, vice president of North American Aviation, Inc. He remarked, "The elements of cost which will determine the economics of future atomic power plants involve major intangible areas which cannot be estimated with any degree of accuracy today." Plant reliability, maintenance costs, and total costs of the nuclear field which are now set administratively by the government were some of the intangible areas he mentioned.

Four basic steps will be included in formulating the 10-year program. First a

complete survey of the technological status and operating history of eight reactor types will be made. Then will follow an assessment of the technical and economic potential of each type. A tentative development program will be worked out for each reactor type to determine the time and money required to achieve its potential.

Finally, a comprehensive program will be set on the basis of decisions as to the relative importance of each reactor type.

Industry experts have been asked to make the first survey of present reactor technology. Later, however, decisions will be made within the AEC.

FPC Pipeline Hearing Set

THE Federal Power Commission has announced it will hear arguments July 17th on the proposed construction of pipeline facilities that would permit introduction of natural gas service in several hundred midwestern communities.

The commission stated it would bypass the customary intermediate report by an examiner and consider this case directly. The case involves three applications by Northern Natural Gas Company of Omaha that proposes some \$102.5 million in construction of gas transmission facilities.

They would make possible deliv-

THE MARCH OF EVENTS

ery of natural gas to 326 communities in Iowa, Minnesota, South Dakota, Nebraska, Wisconsin, and Illinois.

Third Desalting Plant Picked

THE Interior Department has selected the electrodialysis method of desalting water as its third demonstration plant. Last September Congress authorized the construction of five test plants, two for the conversion of brackish water and three for the desalting of sea water. Thus far three processes have been chosen.

The electrodialysis method uses a combination of electric current and a special type of membrane to remove salt and other minerals from water. Several plants are now in commercial operation which use this method.

In addition, a 3 million gallon plant, using this process, is now under construction in South Africa.

Alabama

Utility Bill Tax Attacked

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A PROPOSED tax on utility company bills in Jefferson county, the proceeds of which would be used to support the care of the sick poor, was labeled unjust, unfair, and discriminatory in a public hearing before Jefferson legislators. Major opponents of the measure were the utility companies.

The bill calls for a tax on utility bills (5 per cent on the first \$200, 3 per cent

on the next \$100, and 1 per cent on all bills over \$300 a month).

Proponents of the tax say it is desperately needed to aid people who are dying for lack of care. It would be widespread, they said, being paid for by customers who buy electric power, gas, and other utility services.

Those opposing the tax said it would be discriminatory because it singles out one segment of business.

California

Automatic Generating Station
Automation has invaded the generation station field. Southern California Edison is the latest utility to announce plans to make its generating stations automatic. Southern California Edison has made public plans to install two new computer-controlled power units in its Huntington Beach station. The first generator for the station will be delivered in 1960,

With the addition of the two computer-controlled generators, the combined capacity of the station will be raised to 810,000 kilowatts. These computers control about 250 different operations, such as valves and fuel controls, in keeping the generating units operating.

the second, a turbogenerator, shortly

Estimated cost of each computer is about \$1 million. This is considered the largest computer installation of its kind ever embarked on by an electric utility. Earlier this year Louisiana Power & Light Company said it would install a \$750,000 computer system for its Little Gypsy station.

Monorail System Described

THE Metropolitan Transit Authority in Los Angeles was recently given a description of a suspended monorail rapid transit system. It would consist of 100-passenger cars zipping along in three-to five-car trains at speeds as fast as 75 miles an hour. Both mechanical and electrical brakes would be provided for safety. Dual electric motors and rubber-tired traction

gear would run silently, enclosed in an overhead girder. The system would be installed over the city's existing freeway network.

The components of the system have been fully tested. And now a full-scale model is being erected near Paris, France, for final testing. According to the developer, Companie Francaise D'Enterprise, of Paris, the estimated cost of such a system will be less than \$4 million per overhead track mile.

This does not include charges for rights of way.

Illinois

Automatic Dispatch System

THE production in 10 generating stations is exactly regulated by an automatic dispatch system recently installed by Commonwealth Edison Company. The new equipment was built by General Electric Company and cost, including installation expense, about \$700,000. According to Willis Gale, chairman of Commonwealth, the automatic system not only regulates electricity output to match demand, but it also selects which of 37 turbine generators can most economically

produce additional electricity as required. And when the demand is decreasing the device selects the turbine generators producing electricity at the highest cost and reduces the output of these units.

A total of 37 generating units, some as far away as 140 miles, are tied in with the new control system. The device not only assures the most efficient use of Edison power production facilities, but it also maintains proper flows on interchange of power between Edison and the other utilities with which it is interconnected.

Indiana

World's Most Efficient Generating Plant

THE Clifty Creek plant at Madison, Indiana, is the largest power station ever built by private industry and also the world's most efficient generating plant.

According to preliminary electric power industry figures, Clifty Creek recorded the lowest heat rate of any power plant during 1958. This station last year produced electricity at an average heat rate of 9,130 Btu's per kilowatt-hour.

Clifty Creek is owned and operated by Indiana-Kentucky Electric Corporation, a subsidiary of Ohio Valley Electric Corporation. It has six 215,000-kilowatt generating units for a total capacity of 1,290,000 kilowatts. Clifty Creek together with its sister plant, Kyger Creek, with a capacity of 1,075,000 kilowatts, supply all of the tremendous energy requirements of the Atomic Energy Commission's giant Portsmouth, Ohio, plant, an around-the-clock demand of 1,950,000 kilowatts.

Michigan

Gas Supply Battle

In a fight to keep a flow of Panhandle Eastern Pipe Line Company gas coming for use of thousands of Wayne county homes, Michigan Consolidated Gas Company attempted in the court of appeals to hold up the allocation of Panhandle gas

to other major customers. The move proved unsuccessful for the petition was rejected. Now Michigan Consolidated has appealed the entire issue and the appeals court has ordered briefs filed by August. Wayne county has also intervened in the case. In a brief filed by the county utilities

THE MARCH OF EVENTS

counsel, it was contended that permitting Panhandle to abandon service to Michigan Consolidated would reduce the amount of gas available to local home owners and force the price of gas up. The county also asserted the reason Panhandle wanted to

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abandon service was so it could sell its gas to industry at unregulated prices.

Originally the FPC gave Panhandle permission to end its service to Michigan Consolidated last December, but the effective date has been postponed indefinitely.

New Jersey

Pipeline Approved

The state public utilities commission has approved the application of the Natural Gas Pipeline Company for a 50-mile line from Branchburg Township to Lyndhurst. The line will be the last link in the company's 1,800-mile dual pipeline system from Texas to New York. It will pass through 21 towns, go within 100 feet of 386 buildings along the 50-mile route. It will be maintained and supervised continuously, and contain proper safety devices and be X-rayed at all welded joints.

The line was deemed necessary because of increasing consumer loads in the area. It is estimated that it will be completed in

September of this year.

Turnpike May Subsidize Railroads

Transportation problems of New Jersey may be solved by a broad plan outlined by Governor Meyner in which surplus revenues derived from the New Jersey turnpike would be diverted to grant tax relief to railroads and to help the carriers buy new passenger equipment and consolidate their services in the interests of efficiency.

While railroads would be the chief beneficiary of the state's proposed financial relief, bus companies also would be given assistance whenever the state felt such action justified. The governor indicated he would ask the New Jersey legislature to resume its session in August, long enough to act on the program, which would require the passage of a series of bills, including a referendum that would be submitted to the voters in November.

What is involved is the redemption of \$430 million in revenue bonds issued by the New Jersey Turnpike Authority. Bondholders would be asked to grant the state the right to withdraw the excess revenues as suggested. At present the bondholders have a lien on all revenues of the toll road.

While New York state would not be involved in the program, 75,000 residents of that state who commute daily to New Jersey would benefit from the plan, as would 128,000 Jersey commuters who work in New York.

Governor Meyner said between \$30 and \$40 million in excess turnpike funds are available at present and an estimated \$11 million more would be available in 1960. And the subsequent three years, it is estimated, should produce \$12.5 million, \$13,-750, 000, and \$15 million, respectively, in surpluses.

Pennsylvania

Pittsburgh Transit Plan Voted

THE house of representatives of the Pennsylvania state legislature has approved legislation which would create a

public transit authority in Pittsburgh and adjoining Allegheny county. The state senate is expected to approve the bill shortly.

PUBLIC UTILITIES FORTNIGHTLY

The legislation authorizes a newly created Allegheny County Transit Authority to purchase by negotiation or condemnation the 35 transit companies currently operating in the area. The largest of these is Pittsburgh Railways Company, which is owned substantially by a New York financial syndicate.

The authority is expected to need between \$25 million and \$50 million to acquire the 35 companies. The money will be raised by the sale of bonds.

The transit authority idea resulted from dissatisfaction by a group of downtown Pittsburgh merchants, who felt their lagging sales were due to the transportation system.

A unified transit system will benefit 1 million commuters and riders in the immediate Pittsburgh area.

Texas

Gas Reserves Purchased

It has been announced that Texas Eastern Transmission will acquire approximately a trillion cubic feet of gas reserves at a cost of about \$134 million. A total of \$50 million will be spent by the gas line to gather and move the gas along its system.

The gas is located in the Rayne field of Acadia parish, Louisiana, and is owned by Continental Oil Company, Sun Oil Company, General Crude Oil Company, and M. H. Marr.

Texas Eastern's reserves now total 13.2 trillion cubic feet and this amount will be increased by 7.5 per cent when the new purchase is consummated. The acquisition of the new gas was made possible when the Federal Power Commission granted Texas Eastern authority to build lateral lines to the Rayne field. The FPC also approved the building of additional 30-inch loop lines along the system at a cost of some \$49 million. Texas Eastern's authorized daily delivery capacity is 2,010,000,000 cubic feet of gas.

Compromise Eliminates Hearing

A COMPROMISE on an increase in electric rates has eliminated the need for a full-scale hearing which was threatened by Houston Lighting & Power Company when city council voted a rate which

would have pared revenues by \$150,000.

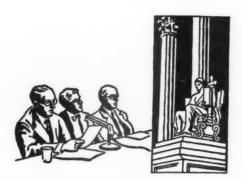
Under the new agreement, demand meter charges will be eliminated and residential electric bills will go up 14.9 cents a month. The new rates will go into effect with the August billings.

Identical rate increases will be offered the other 39 communities served by Houston Lighting & Power, according to Frank Austin, company vice president. "There will be different minimum bills," he said, "but the increase will be essentially the same." President of Houston Lighting & Power, T. H. Wharton, emphasized that the new rate would result in lower revenues for the company. But he said his company would give the new rate schedule a fair trial over a sufficient period to determine without question whether it will provide a fair return on the fair value of facilities.

The company, under the new rate, may no longer increase rates to compensate for increases it must pay for gas to run its plants or for increases in gross receipts taxes. The agreement reached specifies that the company must get council approval to increase its rate for such costs.

Files for Rate Hike

United Gas Corporation has filed a formal request for a rate increase which would boost the average residential gas bill \$1.86 monthly. Mayor Lewis Cutrer of Houston received the request.



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Progress of Regulation

Trends and Topics

Service Denial Because of Arrearages at Mortgaged Premises

The right of a public utility company to deny service for nonpayment of bills does not extend so far as to permit denial of service because of arrearages of a former owner or occupant of premises, according to rulings by various regulatory authorities. Application of this exception to the general rule, however, has sometimes been challenged where the holder of a mortgage or his representative has assumed the responsibility of collecting rents.

A federal court recently decided such a case against a water company which had threatened to cut off the water supply to mortgaged premises unless charges which accrued prior to the date when the mortgagee took possession were paid. The court granted a preliminary injunction on motion by the United States of America in a proceeding to foreclose a mortgage on a housing project made up of multiple family housing units comprising 70 apartments, of which 63 were presently occupied.

The mortgagor had defaulted on his mortgage and the United States, with the consent of the mortgagor, had taken possession and was collecting rents. The court referred to a New York decision (PUR1933D 169), mentioned below, denying the right to refuse service to a receiver in possession to collect rents for the mortgagee. The court in this case could not distinguish that decision from the case where a mortgagee was in possession (28 PUR3d 203).

A New Jersey court held that, unless expressly authorized by a legislative act making arrears for utility bills a lien upon real estate, a water utility has no right to enforce a rule permitting it to cut off a water supply because arrears are due from a former owner; and it held further that a company may not cut off service to holders of a first mortgage in possession of premises by virtue of a provision of the mortgage resulting from default in payment even though the former occupant may be in arrears (PUR1933E 343).

Rights of Receiver

The question presented to the New York court of appeals was whether a

PUBLIC UTILITIES FORTNIGHTLY

water company could shut off water to mortgaged premises for failure of a receiver of rents in possession thereof, after demand, to pay charges accumulated against the owner prior to the receiver's appointment. An action had been brought to foreclose mortgages on an apartment building.

The court gave a negative answer to this question. It noted that a water company has no lien on the premises for unpaid bills. The court pointed out a distinction between private and public water companies under New York law. The remedy against an owner in possession, under the company's rules providing for service denial, would be good against the receiver for charges accruing during his occupancy but it would not be good against him for arrearages of the owner (PUR1933D 169).

A federal court once held that the change of status of the same individual from that of receiver in possession of premises for the benefit of creditors to receiver in a mortgage foreclosure proceeding for the benefit of bondholders was a "change of occupancy" precluding an electric company from discontinuing service to the receiver in his latter capacity for failure to pay bills for service rendered while he acted in his former capacity.

The court said that while it is broadly true that the possession of a receiver is that of the court, this generality must not conceal the fact that it is often necessary to consider for whose benefit and in whose right the receiver is put in possession. The foreclosure bill was a suit independent of that of the creditor's bill, and consolidation was a mere matter of convenience without effect on substantive rights (PUR1933E 439).

Service Denial by Municipal Plant

Municipal plants, under the laws of some states, have liens on property to which they supply public utility service, and they are, therefore, in a somewhat different position than a public utility company. Rates for service furnished by a municipal plant, however, are service charges and not taxes in the ordinary sense of the word. The Maryland court of appeals made the distinction between such charges and taxes in a case in which it denied the right of the city of Baltimore to refuse service to premises outside of the city limits. The Home Owners' Loan Corporation had acquired the property by mortgage foreclosure. The municipality was acting in its proprietary rather than its governmental character, and the court applied the general rule that unless made so by statute "water rents are not a lien on the property served." Ordinances of the city relating to the imposition of a lien were held to have no extraterritorial force or effect (28 PUR NS 25).

The Utah supreme court also upheld the right of the Home Owners' Loan Corporation to demand service from a city although a mortgagor had not paid for water supplied by the municipal plant. The court said that a subsequent purchaser of premises, from which the city has cut off the water supply, is under no duty to pay the arrears owed by a prior tenant or owner, or both, as a condition precedent to having the water turned on for use on his property, unless he has agreed to be liable for the payment. The court further held that an ordinance of the city prohibiting the turning on of water for use of such

PROGRESS OF REGULATION

premises was invalid to the extent that it gave the city the right to deny service to the Home Owners' Loan Corporation (30 PUR NS 57).

It was held in Massachusetts that a city operating a water utility had no right to require a property owner, as a condition precedent to receiving water, to pay bills charged to a tenant for water previously furnished to the tenant. The property had been leased and the lease provided that the lessee should pay for water. Later the premises became vacant. The owner at a later date requested the municipality to supply water but the city refused to do so unless the arrearages were paid. At that time "any lien" which the city had upon the land under a statute "had been lost." The owner paid the charges under protest and sued to recover back the money paid. A decision against the municipality was affirmed on appeal (20 PUR NS 127).

Review of Current Cases

Supreme Court Rules on Duty of FPC to Consider Rates in Gas Certificate Proceeding

THE U. S. Supreme Court has af-I firmed the judgment of the court of appeals in New York Pub. Service Commission v. Federal Power Commission (1958) 25 PUR3d 288, 257 F2d 717, vacating an order of the Federal Power Commission and remanding the case for further proceedings. The Supreme Court disagreed with the ruling by the lower court that the commission had no jurisdiction to conduct "a limited inquiry" after gas-producing companies had threatened to withdraw their gas from the interstate market. The court based its affirmance on the lower court's ruling that the commission must give careful consideration to proposed gas supply contract rates.

This proceeding tests the jurisdiction as well as the discretion of the commission in certificating the sale of gas under § 7 of the Natural Gas Act. The natural gas involved would be obtained from oil and gas leases covering large acreages of the continental shelf off the Louisiana coast. Atlantic Refining Company, Cities Service Production Company, Continental Oil Company, and Tidewater Oil Company

proposed to sell such gas to Tennessee Gas Transmission Company for interstate transmission. The initial contract price of 22.4 cents per Mcf, including a tax of one cent per Mcf, seemed to the commission to be excessive, but after a threat of keeping the gas from interstate commerce, which would be subject to commission regulation, the commission granted the certificate.

Jurisdiction of Commission

The lower court thought that the commission had no jurisdiction to consider the proposal because it was limited to a firm price agreed upon by the parties applicant. Their refusal to accept certification at a lower price even to the extent of canceling their contracts and withholding the gas from interstate commerce, the court held, resulted in the commission's losing jurisdiction. The Supreme Court did not believe that this followed. No sales of gas had ever been made from the leases involved. The contracts under which the petitioners proposed to sell the gas were all conditioned on the issuance of cer-

tificates. A failure by either party to secure such certificates rendered the contracts subject to termination.

Certainly, said the court, the filing of the application for a certificate did not constitute a dedication to the interstate market of the gas recoverable under these leases. Nor was there doubt that the producers were at liberty to refuse conditional certificates proposed by one order of the commission. While the refusal might have been couched in "more diplomatic language," it had no effect on the commission's power to act on a rehearing requested. Even though the commission did "march up the hill only to march down again," upon reaching the summit the court could not say that this "about-face" deprived it of jurisdiction. The court found nothing illegal in the petitioners' rejection of the alternative price proposed by the commission and their standing firm on their own.

Rate Considerations in Granting Certificate

The purpose of the Natural Gas Act was to underwrite just and reasonable rates to the consumers of natural gas. The commission, under § 7, has control over the conditions under which gas may be initially dedicated to interstate use; but the gas operator may protect itself, unless otherwise bound by contract by filing new rate schedules with the commission, subject to the suspension provision of § 4. Congress also gave protection to the consumer as to price by the enactment of § 5, but there may be long delay incident to determination in proceedings under this section.

The importance of considering rates in the certificate proceeding is emphasized by the pattern in the Gulf area where enormous reserves of gas appear to be present. The price certificated would in effect "become the floor for future contracts in the area." The court recognized that a determination of just and reasonable rates is not required in a § 7 proceeding. The court said it did not hold that a "just and reasonable" rate hearing is a prerequisite to the issuance of producer certificates, but it did say that the inordinate delay presently existing in the processing of § 5 proceedings requires a most careful scrutiny and responsible reaction to initial price proposals of producers under § 7. Their proposals must be supported by evidence showing their necessity to the present or future public convenience and necessity before permanent certificates are issued.

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This is not to say that rates are the only factor bearing on the public convenience and necessity. The commission is required to evaluate all factors bearing on the public interest. The commission, in the exercise of its discretion, might attach rate conditions as it believes necessary.

But if unconditional certificates are issued where the rate is not clearly shown to be required by the public convenience and necessity, relief is limited to § 5 proceedings and full protection of the public interest is not afforded. An examination of the record indicated to the court that there was insufficient evidence to support a finding of public convenience and necessity prerequisite to the issuance of the permanent certificates.

The court did not find support in the record for the conclusory finding on which the order was based that "the public served through the Tennessee Gas system is greatly in need of increased supplies of natural gas." Admittedly such need was wrapped up in the commission's action on Tennessee's application for permission to enlarge its facilities, but the two dockets were not consolidated and a presiding examiner had conditioned his approval in the instant case on the granting of the application in the other case, no part of which record was

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before the Supreme Court. Neither was there evidence supporting the finding that producers would seek to dispose of their gas elsewhere than to Tennessee Gas and the interstate market.

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Considerations discussed by the court

required an affirmance of the judgment with instructions that the applications be remanded to the commission for further proceedings. Atlantic Refining Co. et al. v. New York Pub. Service Commission et al. Nos. 518 and 536, June 22, 1959.

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Parent's Capital Cost and Consolidated Tax Return Figure in Telephone Company Rate Case

GENERAL TELEPHONE COMPANY OF PENNSYLVANIA has obtained a rate increase of about \$1.4 million from the Pennsylvania commission, somewhat less than its bid for a \$2 million increase. Total allowable operating revenues of \$16,337,000 will afford a rate of return of 6.10 per cent on a fair value rate base, according to the commission.

Capital Cost

The company claimed a fair rate of return of not less than 7.25 per cent, alleging a cost of capital of 6.68 to 7.38 per cent. It developed, however, that this claim, including an alleged common stock capital cost of 11 per cent, was based principally on judgment evidence.

General Telephone of Pennsylvania is wholly owned by General Telephone Corporation. The parent controls the subsidiary's financial policies. Financial information concerning the parent system is, therefore, evidence of the cost of capital to the subsidiary, the commission observed.

For the period 1953 to 1957 the parent company's capital structure consisted of 46 per cent long-term debt, 19 per cent

46 per cent long-term debt, 19 per cent preferred stock, and 35 per cent common stock. The operating company's average capital structure during the 1953 to 1957 period was 42 per cent long-term debt, 22 per cent preferred stock, and 36 per cent common stock.

The applicant's weighted average cost

of bond issues sold between 1945 and 1957 was 3.62 per cent, with a high of 5.06 per cent in 1957. Its claimed historical cost of preferred stock capital at the end of the test period in mid-1958 was 4.43 per cent. During the same period 52 bond offerings of General Telephone system operating companies paid an average yield of 4.23 per cent. Twenty-three issues of preferred stock of these companies were offered at an average yield of 5.17 per cent.

In the absence of a public market for its common stock, the applicant introduced evidence relating to common stock offerings of 11 independent telephone companies between 1953 and 1957 at an average cost rate of 9.77 per cent. These companies had an average common equity ratio of 41 per cent. Between 1951 and 1958 General Telephone Corporation floated eight large offerings of common at an average cost of 9.53 per cent. Five of the offerings resulted in a cost of 10.94 per cent, related to an average pro forma common equity ratio of 27 per cent. The estimated cost rate for common stock of the parent corporation based on recent market trading evidence was 8.40 per cent, related to an average dividend pay-out of 52 per cent and an average common equity ratio of 35 per cent.

General Telephone of Pennsylvania paid dividends to its parent between 1953 and 1957 amounting to 73 per cent of its earnings. The commission noted that the applicant's cost of common equity capital

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has declined significantly since its 1954 rate proceeding in which 10.25 per cent was allowed. On this evidence the commission arrived at a fair rate of return of 6.10 per cent.

Trended Cost

In submitting estimates of trended original cost of plant for recent periods, the applicant used a method consisting principally of a determination of original cost by years of construction, and a breakdown of each year's original cost into labor and material components. Land was included at an amount based on appraisals at fair market values. The original cost of buildings at the end of the test period was segregated by types of building construction and by years of construction. Costs were trended by the use of the Boeckh Building Cost Index Numbers. While the commission took no issue with the general method of trending, it pointed out that more specific indexes of the Boeckh Company than those chosen were avilable and should have been used.

The company segregated central office equipment, of which 84 per cent is dial equipment, into five categories for the purpose of trending: manual equipment and four manufacturers' makes of dial equipment.

Since each category represented a distinct type of equipment, differing in quantity, design, manufacture, installa-

tion, and operation, the commission did not think it accurate to "splice" or "link" indexes, as was done in some instances. "A more accurate procedure is to segregate central office equipment into such categories as panel, step-by-step, crossbar, manual, etc., and in the development of indexes to utilize a further segregation for each category; namely, material, equipment specifications, and installation."

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Consolidated Tax Return Savings

General Telephone of Pennsylvania, which participates in the consolidated income tax return of its parent, sought to allocate to the parent the tax reductive effect of the latter's 1957 loss for income tax purposes, largely comprising interest expense. In accordance with § 1552 (A) (3) of the Internal Revenue Code, however, the commission allowed the incomproducing subsidiaries to share the benefit of the tax reduction since the parent advances to its operating utilities funds which are repaid in common stock. A saving of 2.132 per cent was thus allocated to the applicant.

Although the company's depreciation reserve requirement, considered acceptable in this proceeding, substantially exceeded the book reserve, the commission rejected a claim for amortization of the deficiency. Pennsylvania Pub. Utility Commission v. General Teleph. Co. of Pennsylvania C. 17006 et al. May 25, 1959.

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Telephone Rate Increase Partly Conditioned on Service Improvement

THE Georgia commission authorized part of the gross revenue increase of \$423,816 requested by General Telephone Company of the Southeast, despite strong customer protests against increased rates for the poor grade of service which is provided in a number of the company's ex-

change areas. As to such exchange areas, the rate increase was conditioned upon service improvement.

Parent's Capital Cost Used

The company contended that a rate of return of $7\frac{1}{2}$ to 8 per cent should be al-

lowed. This claim was based on earnings on common stock offerings of independent companies between 1953 and 1957, five-year average earnings-common equity ratios of selected independent telephone companies, and five-year earnings-common equity ratios for selected gas and electric utilities. Using these ratios, a claimed return on common equity of not less than $10\frac{1}{2}$ per cent was urged, along with a current cost of capital of 7.46 per cent. To the latter figure was added a proposed allowance of one-half per cent for attrition of earnings.

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An expert witness for the commission observed that the ultimate source of capital for the applicant is the investors in General Telephone Corporation, which is the parent of the applicant and which supplies the latter with all of its common equity capital. This witness developed his cost of common stock capital by giving consideration to the capital costs of the parent. He arrived at a rate of return of between 6.25 and 6.60 per cent. This, said the commission, is the most logical approach to the problem and eliminates many of the infirmities in the company's procedure, particularly the problem of selecting "comparable" utilities in the computation of the averages which it developed.

Lower Level of Reasonableness

In view of the substandard service found to exist in several exchange areas, the immediate revenue increase was allowed at the level of about 6.2 per cent. The commission noted, however, that there is ample opportunity for the company to bring its level of earnings up to the top of the range of reasonableness (6.60 per cent) by immediately undertaking to improve its service in deficient areas.

Projected Rate Base Disapproved

In order to provide a cushion against attrition of earnings occasioned by future plant additions at high cost levels, the company urged that a test period ending December 31, 1959, be used. This period involved a forecast of results of operations, along with schedules of estimated plant additions, plant under construction, reserve for depreciation, and working capital components. If the company is to earn a reasonable rate of return in the future, it was said, the return must be applied to a future rate base. In support of this proposition, the company presented calculations tending to show a sharp increase in investment per station.

While rate determinations are by no means an exact science, said the commission, there is no need to embark upon a completely hypothetical approach by means of detailed estimates of future happenings. Although rates are set for the future, the best gauge by which to judge their future effect is the recent past operating history of the utility, it was pointed out. The calendar year 1958, reflecting actual operating conditions, was adopted as an appropriate test period.

Rate Case Expense Denied

A claim for amortization of rate case expenses was denied. The commission held that amortization of such expenses is unnecessary where, as in this case, the presentation is based primarily on the books and records of the utility kept in the ordinary course of business, with much, if not all, of the preparation done by regular company employees. Re General Teleph. Co. of the Southeast, File No. 19377, Docket No. 1395-U, May 20, 1959.

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Inclusion of Investment after Test Period Not Legal Error

HE New Jersey supreme court has held that the commission's action, in adding an amount representing average increase in net plant investment in 1958 to a telephone company's 1957 year-end investment, does not constitute legal error. However, the cause was remanded to the commission for further findings, because the record had failed to reveal any evidence tending to correlate the inclusion of the additional investment to the alleviation of a specific problem. The commission had only hinted at its attempt to remedy the impact of inflation or attrition. Findings, said the court, cannot be supplied by implication. They must be sufficiently specified to enable the reviewing court to ascertain if the facts upon which the order is based afford a reasonable basis for such order.

Economic Effects of Inflation

The court, citing "Rate of Return," by Ellsworth Nichols, page 153, discussed the economic effects of inflation upon the rate of return, noting that there are at least four separate effects. First, there is the effect of inflation on the purchasing power of the dollar in a period of high prices. To adjust for this, utilities have urged that fair value be calculated upon the basis of net current cost of their property as distinguished from original or historical cost.

Second, there is the impact of inflation upon depreciation allowances. Third, there is the factor of attrition or erosion, which is the result of the fact that construction costs are steadily rising and the fact that the basis for calculating rate of return is made in the year prior to that for which the return is calculated.

Fourth, there is the problem of regulatory lag, which is the loss of proper earnings between the time of petition for a rate increase and the time rate relief becomes effective by administrative or judicial determination.

The commission could adjust the 1957 year-end net investment of the company by a figure calculated to account for the impact of inflation in general or attrition in particular, commented the court. If the average increase in net investment for the year following the test year appeared from the evidence to be rationally and reasonably related to the problem of inflation or attrition, there was no legal obstacle to such utilization, since the commission is not obligated to adhere to a net investment formula. But the record did not reveal what corrective factor the commission intended by including the average increase in net plant investment for the year following the test year.

If the board intended to adjust for attrition alone, said the court, then it would seem that only so much of average 1958 net investment should be added as represents the excess in 1958 investment over and above what 1958 investment would have been if the average investment per telephone could have been maintained at the 1957 year-end level. If the board intended to compensate for the overall impacts of inflation, then there was nothing in the record tending to correlate the sum added with the problem.

Methods of Handling Attrition

The court noted that if the commission, on remand, determined that the figure added could not be related to the problem it desired to solve, or if it determined that it no longer desired to adhere to that figure, there are a number of methods currently prevalent for handling the problem of attrition. First, the method most generally followed is to increase the otherwise

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allowable rate of return. Second, some commissions have simply utilized the year-end rate base calculations. Third, other commissions have compensated for the attrition problem by combining an end-of-period rate base with an increase in what otherwise was found to be a reasonable rate of return. Fourth, some commissions have adjusted an original cost rate base by a figure representing the excess of new investment in a period beyond the test year over what such investment would have been if it were constructed at the same average cost as existing plant.

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genwise The court emphasized that it did not intend to indicate that the commission must utilize one or another of the formulae listed above.

The state commission was free to accept or reject them as it saw fit or to adopt any other formula. It was only requisite that the formula adopted be, from the reasoning of the commission, based upon the evidence presented; i.e., its expertise in these matters, rationally related to the problem attacked. New Jersey et al. v. New Jersey Bell Teleph. Co. et al. No. A109, April 20, 1959.

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Supplier Refund Passed on to Consumers

The Colorado commission recently ordered two gas companies to pass on to customers a refund received from the wholesale supplier. The Federal Power Commission had finally determined a rate application of the supplier, and excess rates paid by the gas companies had been returned. Noting that both gas companies had invested the refund money in short-term legals, the commission directed that the interest from such investments be included in the amount refunded.

The fact that the companies had not seen fit to apply to the commission for a pass-on of the increased cost of gas,

pointed out the commission, did not automatically entitle them to retain the refund. It had to be borne in mind at all times that the source of operating funds was from the money collected from customers under the rates. The money refunded was the result of an overcharge in rates by the supplier, and since the retail customer of the distributing company paid in his rates for the cost of gas, he was entitled to the refund. Re Kansas-Colorado Utilities, Inc. Case No. 5163, Decision No. 52469, June 11, 1959; Re Plateau Nat. Gas Co. Application Nos. 13247 et al. Decision No. 52447, June 10, 1959.

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Refund Plan of Natural Gas Distributor Approved

THE Wyoming commission approved a plan submitted by Cheyenne Light, Fuel & Power Company for making refunds to its gas consumers of refund moneys received by it from its suppliers. With respect to the company's residential and commercial consumers, the plan provided that the company would determine the total basic refund for each closed period involved, less the basic refund to be

made to industrial consumers, based upon the volume of gas used by each such customer for the so-called "final revenue month" of each closed period. The final revenue month in each period would correspond to the company's billing month.

Eligible residential and commercial consumers were defined by the plan as those taking service for which they were billed or should have been billed for the respective final revenue month of each period. Each consumer would also receive the applicable portion of interest received by the distributor from its suppliers, less the proportionate share of the estimated cost of the refund operation, and any sales tax received by the company from the state board applicable to such consumers.

Cost of Refund Operation

The company proposed to pay the cost of the refund operation out of the interest received by it from its suppliers and the interest it would receive upon its investment of refund moneys in U. S. Treasury bills. The company had invested the refund moneys which it received from its suppliers in such bills. The commission believed that the company had acted prudently in doing so.

The commission agreed with the company that the moneys were basically trust funds to be administered as such. It concluded that the company should be permitted to reimburse itself for all reasonable costs incurred by it in the refunding operation from the interest to be received on the Treasury bills and from the interest portion of the refund received from its supplier.

Fairness of Plan

The commission observed that inherently the plan contained two main inequities which might affect residential and commercial consumers. A person connecting his premises with the company's system for the first time during the revenue month of any of the closed periods, such as the owner of a new dwelling, would be entitled under the plan to a refund for the entire closed period. In other words, he would be treated the same as a consumer for the entire closed period, thus resulting in discrimination in favor of any such customer. Evidence indicated, however, that the

company would have comparatively few customers of this type and that the amount of any overrefunds to them would be practically negligible.

The other inequity in the plan was that some of the company's residential and commercial consumers might not be eligible to receive refunds. Such customers include generally those purchasers of gas whose premises were connected with the company system during certain months of the closed periods, but not connected during the revenue months. These customers, however, would not be foreclosed from collecting their proportionate share of the refund, but they would be required, under the plan, to file a claim.

The plan required all such claims to be filed with the company within ninety days from the date on which the last refund check was mailed to eligible customers. The commission believed that the 90-day cutoff period was too short and that it should be extended to 120 days.

The commission realized that any plan for making refunds to the company's residential and commercial users, other than one under which each customer's monthly bill would be recomputed at the lower unit rate, would not provide complete equity to all such customers in all situations. Evidence indicated, however, that if such a plan were undertaken the cost of administering it would be four or five times greater than the estimated cost to be incurred by the company under its proposed plan. Furthermore, the time element involved would be much longer than under the proposed plan.

The commission noted that in recent years various courts and commissions have uniformly held generally that the manner of distributing such a fund is an administrative matter involving the exercise of an informed judgment, and that the distribution plan should possess the flexi-

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bility and dispatch which characterize the administrative process. After considering the various facets of the "revenue month" refund plan, including the factors of time, cost, and substantial equity, the commis-

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sion concluded that the plan was practical, feasible, and in the public interest. Re Cheyenne Light, Fuel & Power Co. Docket No. 9248, Subs 1, 2, 3, April 28, 1959.

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Judgment Invalidating Transit Rate Ordinance Affirmed

The court of civil appeals of Texas affirmed a trial court judgment setting aside an ordinance fixing transit rates in the city of San Antonio but refusing to pass upon the validity of a previous rate ordinance. In March, 1957, the city had passed an ordinance authorizing a transit rate increase by reducing a central fare zone. Subsequent experience, however, showed that the increase in the company's revenues exceeded the city's expectations. So it enacted a new ordinance increasing the radius of the central fare zone. This had the effect of reducing the company's rates.

In entertaining the transit company's complaint the trial court had held that a reasonable and fair ratio between the company's debt and equity capital was 15 per cent for debt and 85 per cent for equity and that an overall reasonable rate of return would be 8.4 per cent. Rates under the new ordinance would provide a return of 3.46 per cent. On that basis the trial court had awarded the company a permanent injunction restraining the city from putting the new ordinance into effect, saying that it would deprive the company of its property without just compensation.

City's Contentions

The city first argued that the trial court had erred in failing to value the company's property for rate-making purposes somewhere between original cost less depreciation and reproduction cost new, less adjustment for present age and condition. The court overruled this argument on the ground that the record did not show that the trial court had not applied that formula. There was evidence in the record which would have supported a much higher figure as to the value of the company's property if that value had been arrived at solely by considering the reproduction cost new, less adjustment for present age and condition. On the other hand, if the trial court had considered only the original cost less depreciation of the property it would have arrived at a very much lower figure.

Findings As to Capital Structure

The city also argued that the court acted improperly in finding that a fair ratio between debt and equity capital would be 15 per cent for debt and 85 per cent for equity, resulting in a return of 8.4 per cent. This argument was overruled. The court pointed out that the lower court had heard a great deal of evidence upon the matter, that there was evidence tending to show that the business was on the decline, and that it was difficult to find capital for investment in the company's equity stock. The court said that the proper ratio between debt and equity capital in a transit company is a question of fact to be determined from the testimony of experts. It concluded that the testimony given in this case justified and supported the trial court's conclusion.

Rate Base Deductions

The city also contended that $3\frac{1}{2}$ per cent of the company's land and buildings should be deducted from its rate base to adjust

for the utilization of company properties and facilities by a lessee. The trial court had found that the lessee paid rent for the use of the properties, that this money was credited as income by the company, and that, therefore, it was not necessary to make the reduction suggested by the city. This finding was affirmed.

Company Appeal

The company's appeal presented the argument that the trial court had erred in not enjoining the city from enforcing the earlier ordinance. That one had been entered after a hearing and had gone into effect without either the city's or the company's attempting to secure a judicial review.

The court said that a transit company desiring a rate increase must apply to the city council for a new rate and must invoke the rate-fixing powers of the city before it may resort to courts. It concluded that the record justified the finding of the trial court to the effect that the company had not exhausted its legal remedies before the city council before appealing to the courts for an increase in rates.

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The court also noted that where a company appears before the city council solely for the purpose of opposing the lowering of its rates it may not thereafter go into court and contend that the city should have set aside its old rate and granted a higher rate. San Antonio Transit Co. v. City of San Antonio et al. 323 SW2d 272.

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Commission Refuses to Implement Statute Prescribing Sanitary Water Facilities for Employees

STATUTE enacted by the Illinois legis-A lature in 1957 provides that railroad employees shall be provided by their employer with an adequate supply of safe, clean water satisfactory for drinking purposes dispensed in a sanitary manner. That provision is under the Criminal Code and there is a section providing penalties for violation of the law. The Illinois commission has rejected a petition by the Brotherhood of Railroad Trainmen requesting that it hold hearings and issue a general order requiring railroads to supply adequate, safe, and clean drinking water and sanitary drinking water facilities for employees working in and near cabooses.

The petitioner pointed to the general powers of the commission to adopt rules relative to the exercise of its authority and to specific statutory provisions regarding the safety and health of employees and the public. The commission is given specific power after a hearing, either upon its own motion or upon complaint, by general or special orders, rules, or regulations or otherwise, to require every public utility to maintain its property in such manner as to promote and safeguard the health and safety of employees, passengers, customers, and the public.

Statutory Provisions Are Sufficiently Detailed

The commission said that the matter must be decided against the petitioner upon the practicalities of the situation. The commission raised the question whether, assuming the commission retains jurisdiction to enter such an order, it could enter a general order any more detailed than the statute itself. There are more than 20 railroads in Illinois, and any general order issued by the commission would have to be applicable to all railroads, or certainly all railroads within a certain class. Operating conditions are different not only upon different railroads but may be different as to various localities on the

same railroad. What might constitute an adequate supply of water at one location or locality may differ with regard to another locality. There are also factors relating to the number of employees and temperature.

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The commission said there are numerous ways for water to be dispensed in a sanitary manner and it would "seem inept for the commission to prescribe any particular method for dispensing water." Nor did the commission think that it could more aptly decribe the type of water which should be furnished any better than the legislature, which had already stated it as "safe, clean water, satisfactory for drinking purposes." Certainly the commission should not be called upon to require the railroads to furnish water of a certain chemical and mineral content. Besides, safe water for drinking purposes is a matter for the Department of Public Health which is "more qualified in that particular field than the commission."

Another consideration taken into account was that the original law was passed in 1945 and the legislature in 1957 merely added the clause "or while working in or near a caboose on a train." The fact that the statute had been in effect for more than ten years without the necessity of a general order as to what constitutes an adequate supply of safe, clean water, satisfactory for drinking purposes, was indicative that it was in itself as detailed as a general order on sanitary drinking water could be.

Action under Other Laws

It was further noted that there were separate statutes made a part of the Railroad Act which pertained to particular items of safety, with the like requirement that the commission should enforce the statute. One statute dealt with the minimum requirements of caboose construc-

tion and provided for fines in case of violations. Another statute provides that the operator of a railroad should not permit any railroad car to be dispatched for the transportation of persons "unless such car is in a clean and sanitary condition and free from cockroaches, body lice, bedbugs, and other vermin," with further penalty provisions for violation and a provision that the commission shall enforce the act and make inspections. The commission noted that no general orders had been issued implementing either of these statutes although their enforcement was placed in the hands of the commission.

Only once in thirty years had the commission implemented a statute where a particular health or safety matter had been specified by the legislature. This was a statute requiring railroads to have firstaid kits on all cars "containing the articles prescribed" by the commission. The commission had held hearings and issued a general order setting out what the contents of the kit should be. The commission said, however, that with respect to other details of maintenance, size, location, and quality of the kit package the general order stated that these elements should be reasonably determined by the railroads. Consequently, the commission found that the statute itself was as explicit and as complete a general order on sanitary drinking water as the commission itself would enact under the general welfare and safety provisions of the Illinois Public Utilities Act.

Question of Criminal Penalties

The commission felt that there were serious substantial legal objections to the issuance of any general order. The legislature had set up general standards and had provided for a penalty. If the commission should attempt to pass a general order setting up specific details, such order

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would be pursuant to its general powers.

Assume further that one of the railroads failed to comply with one or more of the detailed specifications. Then the question would arise as to whether the violation of a provision of the order would be under the Criminal Code or would be under a section of the Public Utilities Act providing a very much higher penalty.

Another serious question arises about

the right to a jury determination of a violation of a criminal statute. If the commission should pass a general order on the matter, the commission would be denying the railroad the right to have those questions determined by a jury in the light of the actual facts and circumstances involved at the particular time that a violation was claimed. Re Brotherhood of Railroad Trainmen, No. 45081, June 3, 1959.

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Other Recent Rulings

Security Issue. The Wisconsin commission granted authority to a gas company to issue \$300,000 principal amount of 51 per cent first mortgage bonds for the purpose of securing funds with which to pay for additions to plant in service and to pay and retire short-term notes incurred in temporarily financing additions to plant where the financial condition, plan of operation, and proposed undertakings of the company were such as to afford reasonable protection to the purchasers of the securities to be issued and the terms, conditions, or requirements specified in the certificate were reasonably necessary to protect the public interest. Re Wisconsin Fuel & Light Co. 2-SB-758, May 12, 1959.

Common Stock Issue. The Wisconsin commission authorized a telephone company to issue \$17,000 par value of common stock for the purpose of paying and retiring \$17,000 principal amount of accounts payable where outstanding common stock was presently owned by the president and his family and at least \$17,000 of the accounts payable were payable to the president, who had agreed to accept that amount par value of common stock in settlement of that debt and had

further agreed to forgive a sufficient amount of the balance in accounts payable to eliminate the deficit, which would substantially reduce the general obligations of the company and improve the stock equity. Re Cazenovia Teleph. Co. 2-SB-759, May 12, 1959.

Certificate Transfer. The Massachusetts commission ordered the director of the commercial motor vehicle division to approve the transfer and assignment of a regular route common carrier certificate and an irregular route common carrier certificate where the evidence showed that the transfer was a bona fide sale of a going business. Re Andrews & Pierce, Inc. DPU 12788, May 12, 1959.

Telephone Company Return. The Wisconsin commission denied a telephone company's application for increased rates which would have produced a return of 20.6 per cent on the net book value rate base, but authorized the company to increase rates so as to produce a return of 6.5 per cent. Re Strum Teleph. Co. 2-U-5156, May 12, 1959.

Transit Fares. The Massachusetts commission approved a transit company's

application for increased fares where the need for additional revenues had been established and the increased fares would result in an operating ratio of over 99 per cent, which could not be termed a safe margin. Re Union Street R. Co. DPU 12851, May 19, 1959.

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Return Determination. The Tennessee commission said that a fair rate of return is not a matter of exact mathematical calculation, but is to be determined in the light of the financial conditions found to exist in the market at the time of the investigation. Re City Water Co. of Chattanooga, Docket No. U-4187, May 19, 1959.

Condemnation of Indian Lands. The federal appeals court held that a privately owned public utility could condemn lands allotted in severalty to Indians, under a general statute expressly authorizing the condemnation of such lands for public purposes, and that it need not be shown that such condemnation would be in the best interests of the allottee. Nicodemus et al. v. Washington Water Power Co. et al. 264 F2d 614.

Paid Withdrawal of TV Applicant. In reversing and remanding a Federal Communications Commission order granting a television permit in a comparative contest, the U. S. appeals court held that there was no sufficient showing of the nature of the consideration paid by the successful applicant in connection with the withdrawal of the unsuccessful applicant. Enterprise Co. v. Federal Communications Commission, 265 F2d 103.

No Appeal by Association. An attempt by an unincorporated association of property owners to appeal from a commission order authorizing city waterworks bonds was dismissed by the Indiana appellate court on the ground that the association had no right as an entity to appeal. Lafayette Chapter of Property Owners Asso. v. City of Lafayette et al. 157 NE2d 287.

Wellhead Pricing of Gas. The Kansas supreme court indicated that it understood the U. S. Supreme Court to have held that the state of Kansas had no jurisdiction on January 1, 1954, to regulate the price of gas at the wellhead since that price would affect interstate commerce and the jurisdiction of the Federal Power Commission, even though the federal commission had not at that time taken jurisdiction over such pricing. Cities Service Gas Co. v. Kansas State Corp. Commission et al. 337 P2d 640.

Constitutional Railroad Depot. The Mississippi supreme court ruled that a railroad's proposal to provide an agency station at a county seat for four months during the cotton season and a prepay station during the other eight months of the year would not comply with a provision of the state Constitution requiring railroads to maintain depots in county seats. Town of Sumner v. Illinois C. R. Co. et al. 111 So2d 230.

Waiver of Higher Rate. The Washington supreme court held that a motor carrier cannot waive its right to collect a higher rate where an improper rate has been charged. Hendricks v. Wilder Construction Co., Inc. et al. 338 P2d 754.

Telephone Financing and Rates. In separate orders, the Georgia commission authorized Dixie Telephone Company to finance the purchase of small telephone companies and the conversion of equipment to dial operation by borrowing from the Rural Electrification Administration

PUBLIC UTILITIES FORTNIGHTLY

and issuing common stock; new rates were approved to become effective upon completion of the improvements. Re Dixie Teleph. Co. File No. 19562, Docket Nos. 1428-U, 1429-U, May 5, 1959.

Borrowing and Rates Authorized. The Georgia commission authorized Georgia Telephone Corporation to borrow a substantial sum from Stromberg-Carlson Corporation and to issue stock to finance the acquisition of several small companies and convert to dial operation; in a separate order the commission also authorized new rates to afford additional revenues needed to support the investment. Re Georgia Teleph. Corp. File No. 19607, Docket Nos. 1443-U, 1444-U, May 5, 1959.

Telephone Bond Issue. The Georgia commission approved a substantial issue of 25-year, $5\frac{1}{2}$ per cent first mortgage bonds to be sold to institutional investors by a telephone company requiring funds to pay off short-term bank loans used for plant expansion and improvements. Re Western Carolina Teleph. Co., Inc. File No. 19415, May 20, 1959.

Water Rate of Return. In authorizing a substantial rate increase for the Morris Water Company, the Pennsylvania commission allowed a rate of return of 5.92 per cent on a fair value rate base. Pennsylvania Pub. Utility Commission v. Morris Water Co. C. 17004, C. 17008, May 25, 1959.

Cash Working Capital. In approving increased rates for a water company, the Pennsylvania commission allowed cash working capital based on an average net lag of fifty-eight days, reduced by the av-

erage balance in accrued taxes. Pennsylvania Pub. Utility Commission et al. v. Citizens Water Service Co. C. 17003 et al. May 25, 1959.

Debenture Issue. The Alabama commission authorized a gas company to sell to an institutional investor a substantial issue of its 20-year, 5½ per cent debentures in order to obtain funds to retire bank loans and to pay for plant expansion and improvements. Re Mobile Gas Service Corp. Docket 14706, June 1, 1959.

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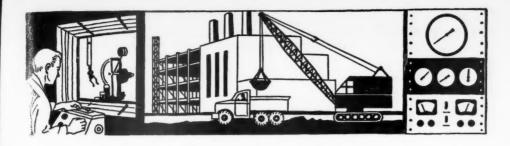
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Unsecured Note Issue. Upon representations that the terms were the best obtainable, the Connecticut commission approved the petition of a gas company to borrow \$840,000 from a bank, for construction purposes, on an unsecured 4½ per cent promissory note payable in four annual instalments. Re Hartford Gas Co. Docket No. 9789, June 1, 1959.

Reduced Rate Discriminatory. The Wisconsin commission held that a telephone company's proposal to offer a reduced rate to churches or parsonages was discriminatory and contrary to its policy. Re Cream Valley Teleph. Co. 2-U-5143, June 1, 1959.

Extended Area Service Discriminatory. The Wisconsin commission held that continuation of extended area service between two exchanges after one had converted to dial operation was unreasonable and unjustly discriminatory in that the cost of such service would not be equitably apportioned to the customers using it, but would be borne by all customers irrespective of whether or not they used the service. Re General Teleph. Co. of Wisconsin et al. 2-U-5147, June 2, 1959.



Industrial Progress

P. Tel. to Spend \$3,000,000 In Nation's Capital

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RLY \$3,000,000 was appropriby the Board of Directors of The apeake and Potomac Telephone bany recently for plant additions improvements in the Distict of

is appropriation, totaling \$2,-00, according to H. Holmes I, vice president in charge of the ington Company, will be used ovide additional long distance ment in the Downtown Wire er; additional cable facilities in Georgetown area; relocation of the plant in connection with highwork along Benning Road, and a per of other projects required to the continuing demand for teleservice.

the end of June there were 608,elephones in the District of Coia as compared with 582,113 for ame month last year.

uthern California Edison to stall Computer-Automated Power Generating Units

world's most advanced computomated steam-electric power ating units are scheduled to be leted by Southern California on Company late in 1960 at its ington Beach generating station. ding o a recent announcement. vo new-cross-compound steam ne-generator units-Numbers 3 will be added to the existing ty, boosting overall capacity to 00 kw. The computer-controlled r-turbine-generator systems will utomated by the General Elec-Company which is also supplying of the two new generating units. General Electric steam turbineator, ordered several months ago scheduled for delivery early in will be rated 210,000 kw.

Bechtel Corporation is the consulting engineer for the power company's major expansion project.

General Electric's advanced computer control system will provide data logging and alarm functions, make continuous performance calculations, and maintain constant control over the two new generating units.

Spurgeon Joins Anderson Electric

SAMUEL J. SPURGEON has been named manager of the Utility engineering Division and Laboratories at Anderson Electric Corporation, Birmingham, Alabama, it is announced by John H. Schuler, vice president and general manager.

Prior to joining Anderson, Mr. Spurgeon for several years was a consulting engineer in Birmingham and the operator of a sales agency specializing in equipment for utilities, government manufacturers. and agencies. During this time he conducted a series of nation-wide surveys on changing product trends in the electrical industry and also aided a number of manufacturers in reorganizing and modernizing their production and sales facilities. For 21 years Mr. Spurgeon was associated in various executive capacities with Alabama Power Comany.

Electro-Motive Announces Personnel and Organizational Changes

A SERIES of organizational and personnel changes were announced recently by Victor E. Rennix, general sales manager of Electro-Motive Division of General Motors at La Grange, Ill. The appointments, reflect the expanding activity of Electro-Motive in the electric utility field, Mr. Rennix pointed out.

In the Eastern Region, R. B. Johnstone, former regional sales engineer has been promoted to manager utility equipment sales. J. P. Greenip former regional sales engineer in the St. Louis region has been transferred and promoted to district manager—utility district. In addition, J. G. Cronin and M. C. Warren former district sales managers are now district managers—utility district.

In the Chicago region, F. E. Von Ohlen, former district sales manager has been promoted to manager utility equipment sales. H. E. Mann former regional sales engineer and D. R. Eichler former industrial sales engineer are promoted to district managers—utility district.

In the St. Louis region, G. C. Mulick, former export sales engineer and A. M. Hazell, Jr., petroleum sales engineer, have been appointed district managers—utility district.

Bendix Computer Offers Data Sheet

THE Bendix Paper Tape Reader (Model PR-2) is described in an illustrated data sheet. Used in combination with the Bendix G-15 general purpose digital computer, the photoelectric reader accepts paper tapes punched in any numeric code. Request copies from Bendix Computer Division, 5630 Arbor Vita Street, Los Angeles 45, California.

Bus-Enclosed Switch Ends Space Problem; Needs No Extra Room

A HIGH-VOLTAGE switch that is completely enclosed in a section of isolated phase bus—and thus takes up no extra room — is a space-saving new development of I-T-E Circuit Breaker Company, Philadelphia.

Designed for use with runs of isolated phase bus—heavy conductor in cylindrical housings used to carry high power at generating and switch-

(Continued on page 20)





*Pole-setting attachment optional.

ARMY REPORT ON JAQUES KJ-254**

"There was a performance test on Pilot Model (Jaques Earth Auger), Model KJ-254, built by Texoma Enterprises, Inc. This test performed in accordance with Military Specification Mil-A-516B, paragraph 3.9 through 3.9.2.

"This test was performed in sandy, gravelly, red clay, hard and dry to blue silty clay at bottom of hole. Average time per hole for 25 consecutive holes was 78 seconds. Average depth of holes was 67.2 inches. Machine functioned at normal temperature."

**JAQUES newly developed Model TJ-254 is 21/2-TIMES FASTER than Model KJ-254!



Some of 29 JAQUES TJ-254's NAVY bought
WHY BUY JAQUES?

- JAQUES Augers have finger-tip, feathertouch controls . . . only 3 primary adjustments for easy, simple operation . . . Mount on standard trucks . . .
- JAQUES drill holes up to 60" diameter ... up to 25' deep in toughest soil... even in rock... FASTER, CHEAPER...
- JAQUES have fewer moving parts for longer life...lower maintenance and operation costs...less "down time"...
- JAQUES dig holes up to 45° angle, either side of truck... Patented pressure control takes strain off all parts when rock drilling...
- 5. FIRST Jaques built 29 years ago is STILL IN OPERATION!

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ENTERPRISES, Manufacturers of JAQUES Earth HIGHWAY 75 NORTH, SHERMAN.	Augers
Send me FREE detailed literature Have representative call. No obliga	
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INDUSTRIAL PROGRESS—(Continued)

ing stations — the unique metal-enclosed high-voltage switch is expected to be a boon to many electric utilities needing to expand in their present crowded metropolitan locations.

With the new switches, metal-enclosed switching stations can be built on as little as one-half the space required for open switchyards. Space savings of as much as 4000 square feet are possible for typical stations.

Also, these metal-enclosed stations can be built vertically up into previously unused space, rather than horizontally — the requirement for open stations—into expensive, hard-to-find property.

All of the switching mechanism is contained within the bus housing and telescoping blade action eliminates the need for any extra space for blade storage. Therefore, no additional lengths of bus are required when the switch is added to a standard run.

In addition, the completely metalenclosed equipment guarantees maximum reliability, limits faults to phaseto-ground types and assures that no live parts are exposed which would constitute a safety hazard to personnel.

The switches were developed by the Greensburg Division of I-T-E under its continuing program of product development for the electric utility field.

The ratings for which these switches can be built range in voltage from 69 through 230 kv, and in current to 2000 amperes. Switch diameter for any rating would be the same as that of the standard size isolated phase bus for the voltage carried.

Further information, specifications and application information may be obtained by inquiry to I-T-E Circuit Breaker Company, 1900 Hamilton St., Philadelphia 30, Pa.

Armstrong Heads Computer Sales for Honeywell

THOMAS H. ARMSTRONG has been named president in charge of marketing for Minneapolis-Honey-well's Datamatic Division in Boston, it was announced recently by Paul Wishart, president of M-H.

Mr. Armstrong assumes direction of an expanded nationwide sales and service force to support the division's new, transistorized Honeywell 800 computer service. His direction of sales activities will include sales engineering, methods and systems support, automatic programming services, customer training, merchandising, ad-

vertising and market planning, work of newly established bra sales offices in New York, Wash ton, Chicago, and Los Angeles as as central sales headquarters in I ton will be under Mr. Arustrong

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His experience in the business deprocessing field spans 20 years in sales and administrative posts a International Business Machine Co Underwood Corp. and Radio Corration of America.

Gavin S. Younkin, vice president Honeywell, who served an inteterm as marketing director of Datamatic Division, is returning Minneapolis to resume duties as g eral sales manager of the parent of pany.

Delta-Star First to Catalog 400 Kv Switches

DELTA-STAR ELECTRIC DI SION, H. K. Porter Company, In is the first in the field of extra In voltage to list a 400 Kv. vertical-In air switch, Type "MK-40," as a star ard product in the outdoor switchs tion of its new catalog, according a company announcement.

Having built America's first or mercially manufactured 150 threep 345 Kv. air switches and the first Kv. substation in Illinois, Delta-S has recently contracted to build three largest generator buses (III) amperes) ever made, and has induced a new line of corona-free or nectors for voltages above 161 Kv, well as the new 400 Kv. switch or log listing.

Union Electric Expands Microwave with G-E System

ONE of the nation's largest ususers of microwave communicate Union Electric Company, is install General Electric 2 KMC equipm for a new 170-mile route runs from the firm's St. Louis headqueters to the company's Viele substion near Fort Madison, lowa.

The installation represents a stable addition to Union Electric's isting communications system. It be used for voice functions, telemeting, supervisory control and remonstrol of existing VHF base stable.

General Electric's Communical Products Department, Lynchlo Va., will supply seven microwaves tions for the new link, which wills as a relay for communications is ties at St. Louis and Louisiana, and Keokuk, Ia.

INDUSTRIAL PROGRESS—(Continued)

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YN W. FALLS, management ultant, is now associated with co Services Incorporated, in the Francisco office of the managementing, engineering and contion from, it was announced rejusting. H. Scaff, Ebasco vice ident.

ior to joining Ebasco Services, as assistant to the president of D. eros and Company, a Venezuelan representing all of General amics Corporation's Venezuelan ities. Before becoming associated the South American firm, Mr. s was director of marketing reth for Forbes Research, Inc.,

0-Kvar Capacitors Installed Underground

EWLY designed General Electrapacitor equipment with 100-rar units is being installed underind to furnish kilovars to the adelphia Electric Company's -volt overhead distribution systhe largest individual order yet of for 100-Kyar units.

he underground location was en to save space on Philadelphia tric's power poles; 100-Kvar cators were chosen to eliminate in-

onnection of units.

he capacitors are of unusual delong and low, with terminals he ends instead of on top. Three Kvar, 2400-volt units, one for phase are wye-connected and asbled at the factory to make a 4160-300 Kvar equipment. The units mounted on a heavy-gauge alumi-

o assure freedom from maintee, the capacitors have cases of less steel, with precision-welded, bound filled stainless steel termi-boxes over the bushings. Provifor line connection consists of a sheathed cable brought out ugh a hermetically-sealed joint in erminal box on each unit. A conor is supplied on the rack to enthe utility to connect the neutral le equipment to system ground.

4 Million Industrial Growth In CP&L's Area

OWING diversification" is highed by Carolina Power & Light pany in a report on industrial th in its area for the first half 959.

in E. Stewart, manager of L's area development depart-, said "We are highly pleased with the number and type of new plants locating in our area. They represent a growing diversity of Carolinas industries which supplement a traditionally strong agricultural economy."

Mr. Stewart said that during the first six months of the year industries have announced plans for expenditures of \$44,095,200 for new and expanded plants, to create 5,716 new jobs and additional payrolls of \$17,616.000 annually.

"This is almost exactly in line with industrial growth for the same period a year ago," he said. Industrial expansion for the 12 months of 1958 reached \$66,803,000, creating 9,083 new jobs and \$27,361,340 in new payrolls.

New plants and expansions have run neck and neck this year, with 38 of each announced in CP&L's area.

West Penn Power Places Second Armstrong Station Unit In Operation

THE second of two giant generating units at West Penn Power Company's new Armstrong station, 10 miles north of Kittanning along the west bank of the Allegheny river, began producing electricity June 16th.

Early operation of the unit, which should be capable of about 165,000 kilowatts, is at a lower level of generation until the turbine generator and auxiliary equipment are functioning

perfectly.

The station's first turbo generator was placed in service in April 1958, and since then has been helping supply the increasing demands of West Penn's industrial, commercial, and residential customers in Western and North Central Pennsylvania.

Construction of the \$50 million project was begun in April 1956. Its total capability of about 342,000 kilowatts makes Armstrong the second largest of the eight power stations which supply more than 378,000 customers served by West Penn.

Completion of the new station means that West Penn Power's generating facilities can now supply as much as 1,280,000 kilowatts of electricity. This includes reserve that will provide for future growth in the area the utility serves.

Along with Armstrong station, West Penn has built several major transmission lines to increase the supply of electric power and improve dependability of service to customers.

(Continued on page 22)

WHY ALL THE DIGGING?



. . . That was the question asked by a fellow last week who was passing by one of our jobs. He couldn't see the logic in moving around all that dirt and stone to get to our job of inspecting and treating the groundline area of an o'der pole.

Our foreman had a good answer, though. "There are shortcuts for about everything else," he said, "but when it comes to inspecting poles, there's just one way to actually see what you're doing—and that means digging first!" And you know,—I agree one hundred percent! Only by digging first, can we remove decay, check remaining strength against load and apply our preservative — Osmoplastic—to kill the fungus that causes decay.

If keeping older poles in place is one of your problems—let us explain our proven method.

Chuck Bradley

Osmose

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INDUSTRIAL PROGRESS-(Continued)

Service to 266,000 Persons Provided in Fiscal 1959 REA Loans

LOANS approved by the Rural Electrification Admir istration during fiscal year 1959 will provide new improved telephone service to an estimated 1711 subscribers, the U. S. Department of Agriculture nounced recently.

Loans also will finance 20,745 miles of electric in and other facilities to provide initial central station electric service to more than 95,000 rural consume

Since the start of REA's electric program in 193 according to an REA release of July 1st, loans to lo organizations have helped provide electricity to million of rural people. When the construction provided in in the 1959 loans is complete, the number of consume to have benefitted from the program will stand at do to 5.2 million. Most electric loans have been made rural electric cooperatives. REA electrification born ers now serve slightly more than half of all electrific farms in the United States.

In the much newer telephone program, which began 1949, total loans approved to date involve nearly million rural subscribers, many of whom are recent their first telephone service as a result.

Helicopter Purchased to Expedite Pole Installations

THE Puerto Rico Water Resources Authority purchased a Sikorsky S-58 helicopter for use in port line construction throughout the island, it was a nounced recently by Sikorsky Aircraft, division United Aircraft Corp. The helicopter is expected prove especially effective in Puerto Rico's remo mountainous areas.

This is the first time a helicopter has been sold for such work, a Sikorsky spokesman said, although se eral similar projects have been carried out successful on an experimental basis or under contract arrang ments.

The Puerto Rico agency will use the S-58 as a him crane to carry huge power poles to construction si and lower them into pre-dug holes. It also will be port crossarms and related hardware and fly groups. crews in and out each day. The S-58 is an all-purpose transport, and it will be operated for the Water woosted sources Authority by Petroleum Helicopters of Late ette, La., the largest commercial helicopter operator the United States.

Rafael R. Ramirez, head of the Power Division the Water Resources Authority, told a recent m electrification seminar that the cost of setting a po by conventional methods on a Puerto Rico transmi sion line is about \$450. With the helicopter, Mr. Ran rez said, the poles can be erected for approximate \$130 apiece, including the expense of digging the ho One of the major economies in both time and mo is the elimination of the need to build costly roads in trucking poles, construction equipment and men to ! right of way.

The decision by the Water Resources Authority purchase the helicopter was made after a recent de onstration in Puerto Rico in which the S-58 set 2 poles, carried in 100 sets of crossarms, and pulled old poles out of the ground so they could be replate by new poles.

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led in III-Hubbell Introduces Positive Pipe Identification System

> CODE!) tape integrated with pipe ating and wrapping for positive entification is being introduced by ill-Hubbell & Company, Cleveland, hio, applicators of engineered coatg and wrapping for steel pipe.

The new identification system, lled Data-Tape, incorporates a kraft per tape which is stamped at two-ot intervals with coded intelligence. he code tells the pipe's manufacrer, its wall thickness, chemistry d type of manufacture (seamless, ntinuous weld, etc.). The tape is iral-wrapped around the pipe over e last protective coating or wrapper plication. It is then covered with kraft paper found on all Hillubbell coated-and-wrapped pipe.

To combat that problem, the full igth of the pipe is spiral-wrapped th Data-Tape. The tape is applied the pipe in one, continuous, mechazed procedure which is integrated the coating-and-wrapping operaon at the mill. To identify a pipe e merely tears back the kraft wrapr far chough to uncover a code arking on the tape. Because of the iral application of the tape, each eal foot of pipe will carry at least e code marking. The identification durable enough to withstand indefite storage periods. The tape will here to the final protective coating wrapper even when the kraft is reoved entirely.

Data-Tape is available from Hillubbell with any type of coatingas a flyin ction site will trans id-wrapping specification at no ex-

ly ground as Industry Sales During April Vater any bosted by Heavy Industrial Use of Lata

ICREASED gas use by industrial peratori stomers helped boost April sales of gas utility and pipeline industry to 737 million therms, the American as Association reports.

Total gas sales for the month were per cent higher than a year ago, flecting the 20.3 per cent annual in in industrial consumption which iset a slight decrease in residential d commercial gas sales attributed to nerally warming weather throught most of the nation.

A.G.A. also reported that total gas les for the year ending April 30 nounted to 82,535 million therms. is represents a 4.5 per cent increase er the 78,975 million therms sold Y 16, 1959-PUBLIC UTILITIES FORTNIGHTLY

during the previous 12-month period. Natural gas sales totaled 80,095 million therms, a year-to-year gain of 4.6 per cent.

May Shipments of Gas Furnaces Up 29.9 Per Cent

MANUFACTURER shipments of gas-fired furnaces during May were 29.9 per cent ahead of the total reported in the same month a year ago, the Gas Appliance Manufacturers Associated reports.

Shipments of gas-fired boilers, meanwhile, held at the May 1958 level and conversion burner sales showed a 19.2 per cent decline.

Edward R. Martin, GAMA director of marketing and statistics, said that 73,800 furnaces, including both forced warm air and gravity types, were dispatched during the month, compared to 56,800 units shipped in the same month of last year. Sales for the first five months of this year totaled 342,500 units, up 37.6 per cent from the 248,900 furnaces sold during the same period of 1958.

Shipments of gas-fired boilers for May of both 1958 and 1959 totaled 7,900 units. The five-month tally for the current year was 36,100 units, an increase of 15 per cent over the yearago shipments.

Conversion burners, used in adapting existing heating equipment from other fuels to gas, accounted for 8,000 sales during the month, compared to 9.900 units sent to market in May a vear ago. The five-month totals for this equipment were 33,900 units this year and 38,800 units last year, a drop of 12.6 per cent.

Combined shipments of these three major types of home central heating equipment totaled 89,700 units for the month and 412,500 units for the fivemonth period, adding up to increases of 20.2 and 29.3 per cent, respectively.

Other types of residential gas heating equipment also experienced marked sales increases during this period, Mr. Martin reported.

Herbert T. Blood Joins Commonwealth Services Inc.

HERBERT T. BLOOD, formerly insurance manager of Ormet Corporation, has joined Commonwealth Services Inc. as an insurance consultant. He will make his headquarters in Commonwealth's New York office at 300 Park avenue, according to W. B. Tippy, president of the management

and engineering consulting firm.

Mr. Blood will work with Commonwealth clients on the development of new insurance programs and the analysis of existing programs from the standpoint of both coverage and

Prior to joining Ormet, he was vice president of Underwriters Mutual Agency Inc., Boston, Massachusetts, and earlier was insurance manager for Sylvania Electric Products Inc.

Technical Paper on Wiring System Standards Offered By Rome Cable

INFORMATIVE data on "Wiring and Wiring System Standards for Industrial Use" is now in bulletin form, available through salesmen of Rome Cable Corporation.

R. C. Graham, chief engineer at Rome Cable, first presented the bulletin's technical information to the Commercial and Industrial Wiring Conference of the Pacific Coast Electrical Association in Los Angeles.

The paper features sections on automation, conduit systems, troughs, trays, ladders, bus ducts and other new products and wiring methods, as well as illustrative table and a recent bibliography on the subject.

When requesting this data, ask for Rome Technical Bulletin RCT-102.

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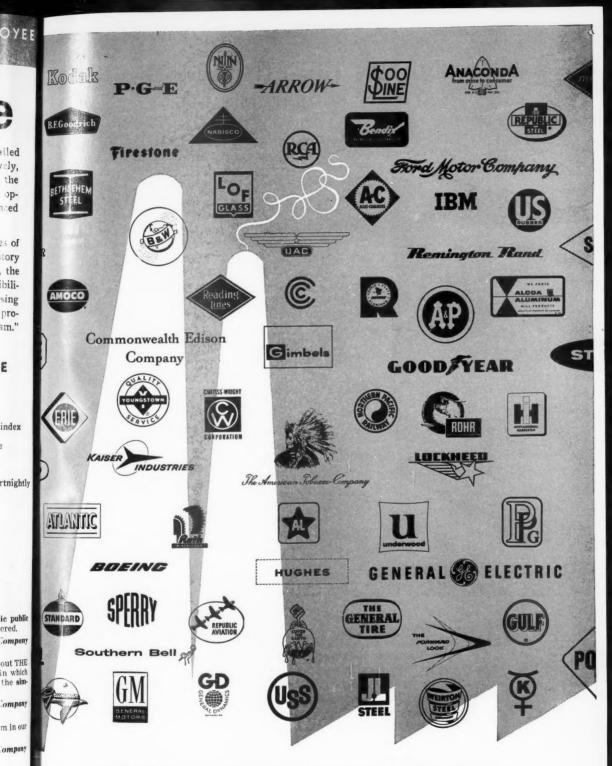
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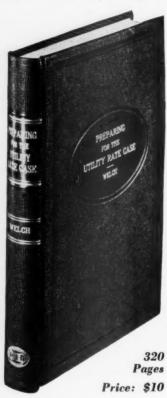
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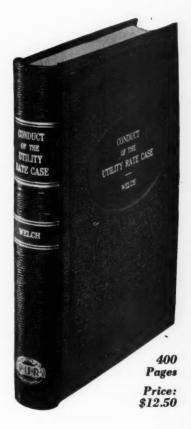
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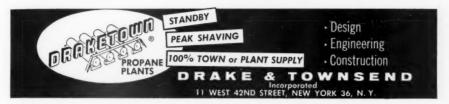
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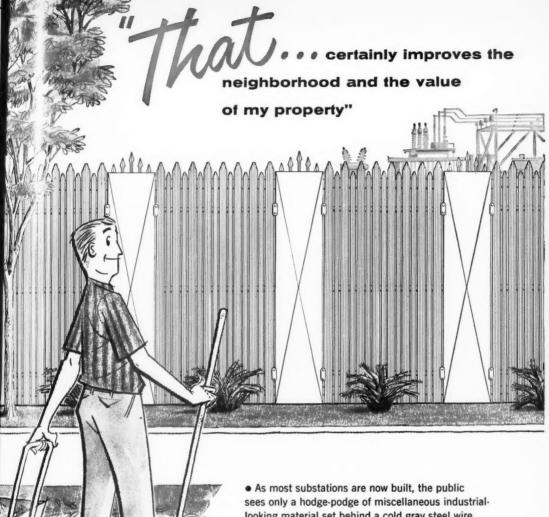
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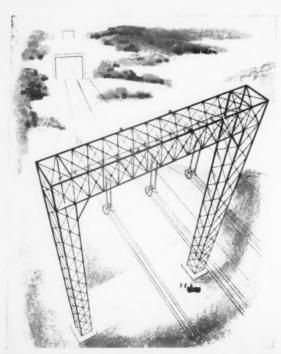
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